Note: This document has been translated from a part of the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail. This translation is based on the Japanese disclosure released on December 1and 3, 2025.

December 1, 2025

Company name: Fudo Tetra Corporation
Representative: Shinya Okuda, President, Representative Director
Securities code: 1813 Prime Market, Tokyo Stock Exchange
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Notice: Regarding the Disclosure of the Special Committee's Investigation Report

As announced in our "Notice: Receipt of the Investigation Report from the Special Committee" dated November 28, 2025, we received the Investigation Report from the Special Committee.

The Investigation Report had been subject to partial non-disclosure measures from the perspective of protecting privacy, personal information, and confidential information, but as the non-disclosure measures have now been completed, we will release the Investigation Report (Public Version) as attached.

Furthermore, we will also announce the scheduled submission date, etc. for the Semi-Annual Report for the fiscal year ending March 2026, and our recurrence prevention measures, etc., as detailed below.

1. Investigation Results from the Special Committee

Please refer to the attached "Investigation Report (Public Version)" for the details of the Special Committee's investigation results.

2. Impact on Our Consolidated Financial Statements, etc.

Please refer to "Section 1.6. Financial Accounting Impact Amount" in Chapter 4 on page 111 of the attached "Investigation Report (Public Version)".

3. Future Responses

(1) Submission of the Semi-Annual Report for the Fiscal Year Ending March 2026, etc.

As announced in our "Notice: Approval of Extension of the Filing Deadline for the Semi-Annual Report for the Fiscal Year Ending March 2026" dated November 14, 2025, we will promptly prepare the Semi-Annual Report based on the investigation results, and submit it by the extended filing deadline of January 13, 2026, after undergoing interim review procedures and additional audit procedures by the accounting auditor.

In addition, the Summary of Financial Results for the Second Quarter (Interim) of the Fiscal Year Ending March 2026 will also be announced by the submission deadline of the Semi-Annual Report.

(2) Recurrence Prevention Measures, etc.

We take the investigation results of the Special Committee seriously, and based on its recommendations for recurrence prevention measures, we will examine, formulate, and implement recurrence prevention measures that should be newly added or changed to the "Detailed Action Plan for Recurrence Prevention" published on our website dated May 9, 2025.

We will announce the specific recurrence prevention measures, etc., once they are determined.

We sincerely apologize for the concern and inconvenience this matter has caused to our shareholders, business partners, and other stakeholders, and we respectfully ask for your continued understanding and support.

November 28, 2025

Fudo Tetra Corporation

To the Board of Directors

Investigation Report
(Public Version)

Special Committee on Preventing Recurrence of Fictitious Orders, etc.

Chairperson Tomoaki Ikenaga

Committee Member Kazuyuki Nakanishi

Committee Member Tetsuya Ono

Committee Member Masatsugu Kaneko

In preparing and reporting this investigation report (public version), proper nouns and other such terms have been replaced with alphabetical or numerical notation or blacked out as appropriate and to the extent possible, considering the impact on relevant parties, companies, locations, institutions, etc.

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Definitions of major abbreviations used in this report are as follows.

Abbreviation	Term
This Committee	The Special Committee on Preventing Recurrence of Fictitious Orders, etc., established by the Company on August 6, 2025
Internal Investigation Committee	Internal Investigation Committee established by the Company on January 27, 2025, concerning fictitious orders and other matters by Company employees
2022 Case	Inappropriate accounting practices, including fictitious recording of construction costs paid to subcontractors for ground improvement work at our Chubu Branch, uncovered during a tax audit conducted from December 2021 to March 2022.
2022 Internal Investigation	Internal investigation conducted within the company regarding the 2022 case
2024 Case	A series of improper accounting practices identified during a tax audit in early December 2024 and subsequently confirmed by an internal investigation committee.
Preliminary Investigation	Preliminary investigation conducted at our company on December 24, 2024, by an emergency task force composed of executives and employees, primarily from the Management Headquarters and Audit Department, regarding the 2024 case
International Department Tax Audit	Around January 2025, tax investigations were conducted by the National Tax Agency regarding two overseas construction projects, each raising suspicions of underreporting of completed construction revenue for the fiscal year ending March 2024.
Construction Site Manager	The head of a construction site belonging to the Ground Engineering Division, including the term "site manager."
Single-Person Site Manager	Construction site manager at a site where only one construction site manager is permanently stationed to manage construction
Enclosure Meeting	From around 2016 to 2024 (excluding 2019, when no event was held, and 2024, when the event was canceled), the main participants in golf competitions and other appreciation events included our company president, the head and deputy head of the Ground Improvement Business Division, the deputy head of the Tokyo Head Office, department/section managers of the Ground Improvement Business, the branch managers of the Yokohama Branch and Chiba Branch (both under the Tokyo Head Office), and the sales section manager of the Ground Improvement Business.
Senior Management	Managers and above
DF	Digital Forensics
Audit Department sampling investigation	Collective term for the following items ①through ③implemented by the Audit Department as recurrence prevention measures for the 2022 case ①Document monitoring during operational audits ②On-site inspections during field visits ③Re-verification of Independent Monitoring by Business Divisions
Our Company	Fudo Tetra Corporation

Soil Technica	Soil Technica Co., Ltd.
KPMG AZSA	KPMG AZSA LLC
X Company	X Company
Z1 Company	Z1 Company
Z2 Company	Z2 Company
Z3 Company	Z3 Company
Z4 Company	Z4 Company
ZZ5 Company	ZZ5 Company
Z11 Company	Z11 Company
ZZ3 Company	ZZ3 Company
Z7 Company	Z7 Company
ZZ4 Company	ZZ4 Company
Z12 Company	Z12 Company
Machine Center	Ground Engineering Division Management Department and Machine Center of the same Machinery Department
Tokyo Machine Center	Ground Engineering Division Machinery Department (Tokyo Machine Center) and Ground Engineering Division Management Department Machinery Management Section (Tokyo Machine Center)
Osaka Machine Center	Ground Engineering Division Machinery Department (Osaka Machine Center) and Ground Engineering Division Management Department Machinery Management Section (Osaka Machine Center)
Mr./Ms. A	Mr./Ms. A, former Manager of the Ground Improvement Department at the Tokyo Head Office
Mr./Ms. B	Mr./Ms. B, who belonged to the Construction Section of the Construction Department, Ground Engineering Division
Mr./Ms. R	Mr./Ms. R, Manager of the Kyushu Branch Ground Engineering Department, Manager of the same department's Construction Section, and Manager of the Soil Technica Construction Department Construction Section (Kyushu) (Kyushu) Section Manager Mr./Ms. R
Mr./Ms. S	Tohoku Branch Ground Engineering Department Manager, Ground Engineering Section Manager, Soil Technica Engineering Department Engineering Section (Tohoku) Manager Mr./Ms. S
Mr./Ms. T	Hokuriku Branch Ground Engineering Department Manager, Soil Technica Construction Department Construction Section (Hokuriku) Manager Mr./Ms. T
Mr./Ms. C	Mr./Ms. C, formerly assigned to the Construction Section, Construction Department, Ground Engineering Division Headquarters
Mr./Ms. D	Member of the Construction Department, Construction Division, Ground Engineering Business Headquarters Mr./Ms. D
Mr./Ms. G	Belonging to the Construction Department, Construction Division, Ground Engineering Business Headquarters Mr./Ms. G
Mr./Ms. U	Ground Engineering Division, Machinery Department (Tokyo Machinery Center), Center Manager Mr./Ms. U
Mr./Ms. J	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. J
Mr./Ms. K	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. K
Mr./Ms. H	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. H
Mr./Ms. P	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. P
Mr./Ms. N	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. N

Mr./Ms. Q	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. Q
Mr./Ms. M	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. M
Mr./Ms. E	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. E
Mr./Ms. F	Ground Engineering Division, International Department, Construction Section Manager Mr./Ms. F
Mr./Ms. I	Member, Construction Department, Construction Division, Ground Engineering Business Headquarters Mr./Ms. I
Mr./Ms. O	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. O
Mr./Ms. AA	Ground Engineering Division, International Department, Construction Section Mr./Ms. AA
Mr./Ms. AB	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. AB
Mr./Ms. AC	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. AC
Mr./Ms. AD	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. AD
Mr./Ms. AE	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. AE
Mr./Ms. AF	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. AF
Mr./Ms. AG	Manager, Safety Section, Kitakanto Branch Mr./Ms. AG
Mr./Ms. AH	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. AH
Mr./Ms. AI	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. AI
Mr./Ms. AJ	Manager, Sales Section, Ground Engineering Sales Department, Tohoku Branch Mr./Ms. AJ
Mr./Ms. ●●	Manager, Machinery Section, Machinery Department, Ground Engineering Division (Tokyo Machine Center) Mr./Ms. ●●
Mr./Ms. AK	Ground Engineering Division, Construction Department, Construction Section Mr./Ms. AK
Mr./Ms. ●●	Ground Engineering Division, Management Department, Machinery Management Section (Osaka Machine Center) Section Chief Mr./Ms. ●●
Mr./Ms. AN	Member, Construction Section, Construction Department, Ground Engineering Division Mr./Ms. AN
Mr./Ms. AO	Manager, Kyushu Branch Ground Engineering Department Mr./Ms. AO
Mr./Ms. Y	X Company Representative Director Mr./Ms. Y
Mr./Ms. ZA	Z11 Company Mr./Ms. ZA
Mr./Ms. AL	Executive Officer, Deputy Head of Ground Engineering Business Division (Sales) Head of Sales Department Mr./Ms. AL
Mr./Ms. AM	Managing Executive Officer, Head of Ground Engineering Business Division Mr./Ms. AM
Mr. Ohbayashi	Director, Executive Vice President Mr. Jun Ohbayashi
Mr. Kuroda	Outside Director (Audit and Supervisory Committee Member) Mr. Kiyoyuki Kuroda
Mr. Okuda	President and Representative Director Mr. Shinya Okuda
Mr./Ms. C3	Finance Department, Management Headquarters Mr./Ms. C3
Mr. Terasawa	Former Outside Director (Audit and Supervisory Committee Member) Mr. Susumu Terasawa
Mr. Kawachi	Director and Managing Executive Officer Mr. Yoji Kawachi
Mr. Kitagawa	Former Director and Former Managing Executive Officer Mr. Shoichi Kitagawa
Mr. Yasukazu Nagata	Former Outside Director (Audit and Supervisory Committee Member) Mr. Seiichi Nagata
Mr. Hirotani	Former Full-time Audit Committee Member Mr. Nobuyuki Hirotani
Mr. Okamura	Former Full-Time Audit Committee Member Mr. Motoji Okamura

Ms. Miura	Full-time Audit Committee Member Ms. Kumiko Miura
Mr. Maeda	Outside Director (Audit Committee Member) Mr. Kiyoshi Maeda
Mr. Masaji Suzuki	Outside Director (Audit and Supervisory Committee Member) Mr. Masaji Suzuki
Mr./Ms. C2	Audit Department Mr./Ms. C2
Mr./Ms. ●●	Ground Engineering Division Management Department Mr./Ms. ●●
Mr./Ms. C1	Ground Engineering Division Management Department Mr./Ms. C1
Mr./Ms. ●●	Management Headquarters, Personnel Department Mr./Ms. ●●

Chapter 1 Overview of This Committee and This Investigation
Section 1 Background Leading to This Investigation

1 Discovery of the 2024 Case and Establishment of the Internal Investigation Committee

The background leading to the establishment of this Committee is as follows.

According to the Internal Investigation Committee Report, around early December 2024, following a point raised by an external organization [1], it was discovered that a managerial employee belonging to the Tokyo Groundwork Department had, over multiple years, placed inflated or fictitious orders for construction materials with a specific supplier in relation to certain transactions for that project. The employee then diverted a portion of the funds equivalent to the order value back to themselves by purchasing gift certificates. Furthermore, an employee belonging to the Ground Engineering Headquarters and serving as a construction site manager (hereinafter referred to as the "Construction Site Manager") requested that inflated or fictitious orders for construction materials be placed with the same supplier to cover the costs of construction materials and equipment, or had the supplier purchase receipts that could not be properly processed by the Company[2](hereinafter referred to as the '2024 Case') was uncovered. Consequently, on December 24, 2024, an Emergency Response Headquarters was established, composed primarily of executives and staff from the Management Headquarters and Audit Department outside the Ground Engineering Division. This body initiated an investigation (hereinafter referred to as the "Preliminary Investigation").

The preliminary investigation revealed suspicions that multiple other employees belonging to the Ground Engineering Division may also have engaged in accounting practices differing from actual transactions through the same construction equipment and materials vendors. Consequently, the Company's Risk Management Committee determined that an "objective and transparent investigation" was necessary. It was decided to establish an internal investigation committee composed of two external experts with no vested interest in the Company(one attorney and one certified public accountant) and an outside director serving on the Audit and Supervisory Committee (attorney) as members. The resolution to establish the Internal Investigation Committee was adopted at the Board of Directors meeting held on January 27, 2025, and the Internal Investigation Committee commenced operations on the same day.

At the time of its establishment, the Internal Investigation Committee determined that the preliminary investigation was ongoing and that the investigation structure established by the Emergency Response Headquarters consisted of personnel and organizations with no direct vested interests in the construction sites, including the ground improvement project. The Committee further determined that "there were no circumstances that would raise doubts about the credibility of the investigation content or the results at that point." Therefore, the Committee inherited the investigation content and results of the preliminary investigation and conducted its investigation "while maintaining continuity with the preliminary investigation." Therefore, the Internal Investigation Committee adopted a structure consisting of four external investigative assistants (lawyers, three of whom belonged to the law firm of the Company's retained counsel) and five certified public accountants, supplemented by six internal assistants, primarily employees who had been assigned to the Emergency Response Headquarters.

Additionally, digital forensics (hereinafter "DF") investigations were supported by foxcale Inc., a specialized firm, under the direction of the Internal Investigation Committee.

2 Investigation Report and Institutional Investor Feedback

[1] Although the findings actually stemmed from an investigation by the Tokyo Regional Taxation Bureau, the on-site investigation concluded at the end of March 2025. Since the final results had not yet been notified, and the Tokyo Regional Taxation Bureau requested that the Internal Investigation Committee not disclose in its report that the national tax investigation was the origin of the matter, it is presumed the Internal Investigation Committee did not explicitly state this.

[2] Page 1 of the published version of the Internal Investigation Committee Report

The internal investigation committee commenced its activities on January 27, 2025, and submitted its investigation report to the Company on March 31, 2025. A summary of the investigation findings is provided in Chapter 3, Section 1. In response, the Company published a detailed implementation plan for recurrence prevention measures on its website on May 9, 2025, and was working to implement these measures.

However, our shareholders pointed out that the Internal Investigation Committee Report was insufficient in both identifying the root cause and preventing recurrence. Furthermore, various opinions were raised by institutional investors through SR activities[3]. Therefore, based on discussions with institutional investors over a period of approximately 3 months, a proposal to establish this Committee was submitted to the Board of Directors.

3. Establishment of This Committee and Agreement to Comply with Third-Party Committee Guidelines

Through the above process, the Company selected candidates for this Committee to ensure its composition consists of independent third parties who have no vested interests with the Company, specific shareholders, or institutional investors, and who are experts well-versed in investigative work.

Furthermore, regarding the establishment of this Committee, it was agreed in advance between the Company and the candidate members that the Committee would comply with the Japan Federation of Bar Associations' Third-Party Committee Guidelines. This agreement stipulated that, building upon the findings, materials, and results of the investigation already conducted by an internal investigation committee composed of third parties following a preliminary investigation, the Committee would review these. Should any questions or concerns arise, the Committee would conduct additional fact-finding investigations at its discretion to resolve them, if deemed necessary.

Subsequently, at an extraordinary board meeting held on August 6, 2025, a resolution was passed to establish this committee. The Company formally commissioned the committee members, and the committee was established and formed on the same day.

Section 2 Purpose of This Investigation

This investigation aims to enhance the effectiveness of recurrence prevention measures. Based on the Internal Investigation Committee's report, it seeks to identify the causes of this incident as outlined below and propose additional recurrence prevention measures.

① Identification of Causes Regarding Necessary Matters

②Proposing Additional Preventive Measures Based on the Findings of the Root Cause Analysis

As stated above, this Committee planned to review the Internal Investigation Committee Report and related materials, using the Internal Investigation Committee Report as a basis, and to conduct new additional fact-finding investigations if questions arose. As described later, the Committee's additional investigations uncovered numerous new suspicions. Consequently, the scope of facts under investigation, individuals subject to interviews, and materials under review (including DF investigations) significantly expanded beyond what the Committee had initially anticipated. Furthermore, the Committee

[3] Our "Notice Regarding the Establishment of a Special Committee" (August 6, 2025)

deeply pursued and identified the common root causes underlying both the facts established by the Internal Investigation Committee and the newly established facts. While the Company has formulated and is implementing recurrence prevention measures based on the Internal Investigation Committee's report, this Committee's root cause analysis has led it to propose additional countermeasures that it considers effective, separate from the existing recurrence prevention measures. This report details this process and its results.

Section 3 Investigation Structure

1 Committee Composition

This committee consists of the following four members. Masatsugu Kaneko was involved as an investigator from the committee's establishment. However, due to additional verification and investigation required during the committee's investigation process, he was appointed as an additional member on October 29, 2025.

Chairperson	: Tomoaki Ikenaga (Lawyer, Certified Fraud Examiner, Proact Law Office)
Committee Member	: Kazuyuki Nakanishi (Lawyer, Certified Fraud Examiner, Tanabe & Partners)
Committee Member	: Tetsuya Ohno (Lawyer, Certified Fraud Examiner, Seigetsu Law Office)
CommitteeMember	: Masatsugu Kaneko (Certified Public Accountant, EY Forensic & Integrity LLC)

2 Investigation Personnel

This Committee appointed the following individuals as investigation officers and assigned them to conduct the investigation.

Proact Law Office	:	Lawyers Keita Fukuda, Eri Iwabuchi, Rumi Tabata, and Eishu Kanda
Tanabe & Partners	:	Lawyers Hiroyuki Hashimoto, Rei Nakahashi, and Kiri Sugimoto
Seigetsu Law Office	:	Lawyer Daisuke Yoshimori
Ernst & Young ShinNihon LLC	:	Sawako Ishibashi, US CPA, Shin Fukuhara, CPA, Ryo Okamoto, CPA, Yasuto Tanaka, CPA, Sogo Tsuchida

Furthermore, the Committee engaged foxcale Inc. (CPA Takeshi Koike, Ryosuke Yoshizu, and 5 others) as investigative assistants to perform digital data preservation and analysis work.

3 Investigation Secretariat

The Committee designated six Company employees to serve as the Company's Secretariat to assist with the investigation. Strict information barriers were established between these employees and other Company officers and employees, and they were required to sign confidentiality agreements. They were engaged in auxiliary tasks such as responding to document collection requests from the Committee and contacting individuals subject to interviews. Furthermore, two of the six individuals mentioned above became subjects of the investigation during the course of the inquiry. Consequently, they were subsequently removed from the secretariat and were not assigned to perform the aforementioned support duties.

4 Independence of This Committee

This Committee complies with the "Guidelines for Third-Party Committees in Corporate Misconduct Cases" established by the Japan Federation of Bar Associations on July 15, 2010 (revised December 17, 2010), for the purpose of facilitating the audit work of the accounting auditor. Part of the progress of this investigation has been reported to the Company's secretariat, employees involved in financial closing operations, and the accounting auditor [4]. Furthermore, foxcale Inc., which participated as an external expert in the investigation team, continues to assist the Committee's investigation. This decision was made considering that there are no issues with its independence and that it contributes to the efficiency of the investigation, such as holding data preserved during the internal investigation.

The four members of this Committee are third parties with no conflicts of interest with the Company or any specific major shareholder. Each member possesses extensive experience in fraud investigations and serving on investigation committees, as well as experience overseeing internal controls and governance, and is highly specialized.

Section 4 Scope of the Investigation

1 Investigation Period

The Internal Investigation Committee set the investigation period as the five years and nine months from April 1, 2019, to December 31, 2024. Furthermore, the Internal Investigation Committee stated that it would also consider circumstances from periods prior to the above period when necessary to determine the causes of the fictitious orders and other matters related to this case [5].

To achieve the objectives of this investigation, this Committee decided to conduct its investigation not limited to the period covered by the Internal Investigation Committee, but extending the investigation period to September 30, 2025. The investigation will be conducted to the extent necessary to determine the causes of this misconduct and similar past incidents. Regarding the determination of the financial impact amount, the period from April 1, 2020, to September 30, 2025,

The period for determining the accounting impact is five years and six months, from April 1, 2020, to September 30, 2025.

2 Scope of the Investigation

The Internal Investigation Committee determined that, since fictitious orders and similar issues were identified only in the ground improvement business during both the preliminary investigation and subsequent investigations, and given the nature of the business, it was reasonable to focus the investigation primarily on the ground improvement business. Therefore, the ground improvement business was designated as the primary subject of the investigation.

However, to achieve the objectives of this investigation, the Committee decided not to limit the scope to ground improvement projects alone, but to also include other projects.

3 Target Corporation

[4] During the course of this investigation, the Committee has been sharing information with the Company's Secretariat and the Company's auditor, KPMG AZSA LLC, to the extent necessary for the smooth execution of audit procedures and considering the need to apply for an extension of the quarterly (interim) financial results announcement deadline.

[5] The Internal Investigation Committee Report does not clearly indicate the specific point in time to which the Internal Investigation Committee conducted its investigation.

Similar to the Internal Investigation Committee, the investigation will target the Company and its subsidiary, Soil Technica Co., Ltd. (hereinafter "Soil Technica"), but will be conducted to the extent necessary.

Section 5 Survey Methodology

1 Review of Materials Provided

(1) Review of Preliminary Investigation and Internal Investigation Materials

The Committee requested, to the extent necessary for this investigation, that the Company and the Internal Investigation Committee provide materials preserved by the Company during its preliminary investigation and by the Internal Investigation Committee (including electronic data; the same applies hereinafter). The Committee then scrutinized the disclosed materials (investigation reports, interview memos, committee meeting minutes, materials provided by interviewees, construction-related materials, financial statements, accounting documents, and other relevant documents).

(2) Review of Materials Provided at the Request of This Committee

The Committee requested the Company to provide internal documents it retains that are considered related to improper conduct similar to or analogous to the 2024 case, to the extent necessary for this investigation. The Committee then examined the disclosed internal documents (including internal regulations, meeting minutes, various contracts, construction-related materials, audit documents, financial statements, accounting records, and other relevant documents).

The Committee also examined materials disclosed from time to time by individuals subject to interviews and other relevant parties.

2 Digital Forensics

The Committee conducted a digital forensics (DF) investigation to accurately examine the subjects of this investigation. The specific implementation details and investigation results are as outlined in Appendix 1.

3 Interviewing Relevant Parties

The Committee conducted interviews with a total of 75 internal and external parties, including employees and officers of the Company and Soil Technica (including retired and former personnel) as well as cooperating contractors, to the extent necessary for this investigation[6].

The specific number of interviews conducted and the names of the interviewees are as follows. Note that affiliations, etc., are listed as they were at the time of the inappropriate conduct or as past or current affiliations relevant to this investigation.

	Name of Interviewee	Affiliation, etc.	Conducted Number of Interviews
1	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
2	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1

[6] Furthermore, regarding Mr./Ms. B, who has already retired from our company, we were unable to obtain cooperation for investigations such as hearings from this committee.

3	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	3
4	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
5	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
6	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section / Former Manager, Construction Section, Ground Engineering Department, Tohoku Branch	1
7	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
8	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
9	Mr./Ms. ●●	Ground Engineering Division, International Department, Construction Section Manager	1
10	Mr./Ms. ●●	Construction Department, Construction Division, Ground Engineering Business Headquarters	3
11	Mr./Ms. ●●	Former Ground Engineering Division, Construction Department, Construction Section	2
12	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
13	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	2
14	Mr./Ms. ●●	Ground Engineering Division, International Department Manager	2
15	Mr./Ms. ●●	Ground Engineering Division International Department Management Section Manager	1
16	Mr./Ms. ●●	Construction Department, Construction Section, Ground Engineering Division	1
17	Mr./Ms. ●●	Deputy Director, Management Department, Ground Engineering Division; Manager, Management Section, Management Department; Soil Technica General Affairs Section Manager	2
18	Mr./Ms. ●●	Ground Engineering Division, International Department, Construction Section	1
19	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
20	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	2
21	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
22	Mr./Ms. ●●	Osaka Branch Civil Engineering Department Construction Section	1
23	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
24	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	2
25	Mr./Ms. ●●	Kyushu Branch Ground Engineering Department Manager, Construction Section Manager, Soil Technica, Construction Department, Construction Section (Kyushu) Manager	2
26	Mr./Ms. ●●	Former Head of the Ground Improvement Department, Tokyo Head Office	1
27	Mr./Ms. ●●	Construction Department, Construction Section, Ground Engineering Division	2
28	Mr./Ms. ●●	Chubu Branch Civil Engineering Department Construction Section / Former Civil Engineering Division Construction Department Construction Section (Yokohama)	1
29	Mr./Ms. ●●	Ground Engineering Division Construction Department Construction Section	3
30	Mr./Ms. ●●	Tohoku Branch Ground Engineering Department Manager, Construction Section Manager, Soil Technica, Construction Department, Construction Section (Tohoku) Section Chief, Formerly Kitakanto Branch Construction Department Section Chief	3
31	Mr./Ms. ●●	Hokuriku Branch Ground Engineering Department Manager, Soil Technica Construction Department, Construction Section (Hokuriku) Manager, Former Kitakanto Branch Construction Department Section Chief	2
32	Mr./Ms. ●●	North Kanto Branch Safety Section Manager, Former Ground Engineering Division Construction Department Construction Section	1

33	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
34	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	2
35	Mr./Ms. ●●	Former Ground Engineering Division International Department Management Section Manager	1
36	Mr./Ms. ●●	Ground Engineering Division, Machinery Department (Tokyo Machine Center) Center Manager, Former SOI Former Manager, Maintenance Section, Tokyo Machine Center, Leasing Business Division, Leasing Business Division	4
37	Mr./Ms. ●●	Executive Officer, Deputy Head of Ground Engineering Division (Sales), Head of Sales Department, Former Head of Sales Department at Tokyo Branch Kyoto Branch Deputy Manager	1
38	Mr./Ms. ●●	Managing Executive Officer, Head of Ground Engineering Business Division, Former Deputy Head of Tokyo Head Office, Former Deputy Head of Ground Engineering Business Division Deputy Head	1
39	Mr./Ms. ●●	Ground Engineering Division, Machine Department, Machinery Section (Tokyo Machine Center)	1
40	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
41	Mr./Ms. ●●	Executive Officer, Tohoku Branch Manager, Tohoku Branch General Affairs Section Manager	1
42	Mr./Ms. ●●	Manager, Sales Section, Ground Engineering Sales Department, Tohoku Branch / Former Manager, Ground Engineering Section, Hokkaido Branch	1
43	Mr./Ms. ●●	Manager, Machinery Section, Machinery Department, Ground Engineering Division Headquarters (Tokyo Machine Center) / Former Manager, SOI Technica Lease Division Tokyo Machinery Center Machinery Section Manager	4
44	Mr./Ms. ●●	Ground Engineering Division, Machinery Department, Machinery Section (Osaka Machine Center) Section Chief, Former Soy Lutecnica Lease Division Osaka Machine Center Machinery Section Manager	2
45	Mr./Ms. ●●	Ground Engineering Division, Construction Department, Construction Section	1
46	Mr./Ms. ●●	Ground Engineering Division, Management Department, Machine Management Section (Osaka Machine Center) Section Chief, Former Soil Technica Lease Division Tokyo Machine Center Maintenance Section	1
47	Mr./Ms. ●●	X Company Representative Director	1
48	Mr./Ms. ●●	Audit Department Manager	3
49	Mr./Ms. ●●	Head of Finance Department, Management Headquarters	3
50	Mr./Ms. ●●	Director, Purchasing Department, Ground Engineering Division / Director, Purchasing Department, Civil Engineering Division	3
51	Mr./Ms. ●●	Director, Human Resources Department, Management Division; Former Manager, Personnel Section, General Affairs & Human Resources Department, Management Division	1
52	Mr. Yoji Kawachi	Director, Managing Executive Officer, Head of Administration Division, Former Deputy Head of Administration Division	3
53	Mr./Ms. ●●	Director, Ground Engineering Division Management Department	1
54	Mr./Ms. ●●	Director, General Affairs Department, Management Division	1
55	Mr. Jun Ohbayashi	Executive Vice President and Former Head of the Ground Engineering Business Division	1
56	Mr. Shoichi Kitagawa	Former Managing Executive Officer and Head of Administration Division	1
57	Mr. Nobuyuki Hirotani	Former Full-time Audit Committee Member	1
58	Mr. Motoji Okamura	Former Standing Audit Committee Member	1
59	Ms. Kumiko Miura	Full-time Audit and Supervisory Committee Member, Former Deputy Head of the Ground Engineering Business Division	1
60	Mr. Susumu Terasawa	Former Outside Director (Audit Committee Member)	1
61	Mr. Masaji Suzuki	Outside Director (Audit and Supervisory Committee Member)	1

62	Mr. Kiyoyuki Kuroda	Outside Director (Audit and Supervisory Committee Member)	1
63	Mr. Seiichi Nagata	Former Outside Director (Audit and Supervisory Committee Member)	1
64	Mr. Kiyoshi Maeda	Outside Director (Audit and Supervisory Committee Member)	1
65	Ms. Mari Osawa	Outside Director	1
66	Mr. Shinya Okuda	President and Representative Director	1
67	Mr./Ms. ●●	Osaka Branch Foundation Engineering Department Manager	1
68	Mr./Ms. ●●	Construction Department, Construction Section, Ground Engineering Division	2
69	Mr./Ms. ●●	Deputy Manager, Finance Department, Management Division	1
70	Mr./Ms. ●●	Manager, Machinery Management Section, Administration Department, Ground Engineering Division	1
71	Mr./Ms. ●●	Ground Engineering Division, Purchasing Department, Contracts Section Manager / Civil Engineering Division, Purchasing Department, Contracts Section Manager	1
72	Mr./Ms. ●●	Ground Engineering Division, Machinery Department Manager	1
73	Mr./Ms. ●●	Director, Ground Construction Department, Kyushu Branch	1
74	Mr./Ms. ●●	Manager, Maintenance Section, Machinery Department, Ground Engineering Division Headquarters (Tokyo Machine Center)	1
75	Mr./Ms. ●●	Executive Officer, Deputy Head of Ground Engineering Division, Head of Construction Department	1

4 Implementation of a Questionnaire Survey for Officers and Employees

As part of this investigation, the Committee conducted an anonymous employee survey targeting all officers and employees of the Company and Soil Technica as of September 12, 2025. The purpose was to analyze the causes (including corporate culture and industry practices) of inappropriate conduct similar to the 2024 cases and to consider measures to prevent recurrence. The survey responses were submitted to and managed solely by this Committee, ensuring the Company had no access to the responses whatsoever. Details regarding the survey questions and response analysis are provided in Appendix 2.

5 Establishment of a Hotline

To gather internal information, supplementing the employee survey and interviews, the Committee established a dedicated email address and launched the "Special Committee Hotline" on November 10, 2025. Reports to the hotline were directed to and managed by the Committee, ensuring the Company had no access to view any reports or related information. No information was provided during the operation period (November 10, 2025 to November 14, 2025).

6 Consultation with the Accounting Auditor

To achieve the objectives of this investigation, the Committee held a total of 13 discussions with the Company's accounting auditor, KPMG AZSA LLC (hereinafter referred to as "KPMG AZSA"), regarding the scope, methods, and content of the investigation.

Section 6 Notes

1 Limitations of the Investigation

The Committee does not possess compulsory investigative authority and conducted this investigation solely based on the voluntary cooperation of the Company, Soil Technica's officers and employees, and other relevant parties. Therefore, this investigation and its results have certain limitations. Furthermore, this investigation is limited to matters factually confirmed within the scope and procedures determined in accordance with the terms agreed upon with the Company. It was not intended to comprehensively verify facts regarding other improper activities within the Company's other businesses or the Company Group, nor regarding other improper activities outside the scope of the agreed-upon terms.

2 Special Notes

Please note that the reporting in this report is based on the following assumptions:

①All relevant materials submitted by the Company to the Committee are authentic and complete originals or accurate copies thereof.
②This investigation was not intended to rely on third parties, and in no sense does the Committee guarantee any liability to third parties.
③Given that past records are often not retained by the subjects of this investigation (particularly employees who committed inappropriate acts and cooperating contractors of the other party), and that collecting such records was difficult in some cases, many factual determinations in this investigation phase necessarily relied on the recollections of those involved. Therefore, should facts not assumed by the Committee come to light after the reporting date of this investigation, the conclusions in this report may be partially revised.

Chapter 2 Company Overview

Section 1 History and Background

The Company was established in October 2006 through the merger of Tetra Corporation and Fudo Construction Co., Ltd., with Fudo Construction Co., Ltd. as the surviving company. It is listed on the Tokyo Stock Exchange Prime Market.

Fudo Construction Co., Ltd. is a company that originated from Takita-no-Gumi Co., Ltd., established in Osaka City in January 1947, with construction as its primary business purpose (the company name was changed to Fudo Construction Co., Ltd. in 1956) and had been listed on the First Section of the Tokyo Stock Exchange and the First Section of the Osaka Securities Exchange since 1967.

Tetra Co., Ltd. was established in Tokyo in May 1961 with the business purpose of manufacturing and selling tetrapods, as well as designing and constructing related projects. It had been listed on the First Section of the Tokyo Stock Exchange since 1994. However, following Fudo Construction Co., Ltd.'s business reorganization in 2004, Tetra was made a subsidiary through the underwriting of a third-party allotment of new shares.

As of the end of March 2025, the Group consists of seven consolidated subsidiaries and one equity-method affiliate, as follows.

Name	Address	Main Business Activities	Percentage of Voting Rights Held (%)
Soil Technica Co., Ltd.	Chuo-ku, Tokyo	Ground Improvement Business	100.0
Fudo Construction Incorporated	California, USA	Ground Improvement Project	100.0
SHUWA CONSTRUCTION Co., Ltd.	Yurihonjo City, Akita Prefecture	Civil Engineering Project	66.7
Tripole Co., Ltd.	Koto-ku, Tokyo	Block Business	100.0
Fukushi Shoji Co., Ltd.	Chuo-ku, Tokyo	Other Businesses	88.3
Aichi-Base Corporation	Okazaki City, Aichi Prefecture	Ground Improvement Business	100.0
Nihon-Doshitsu Corporation	Nagoya City, Aichi Prefecture	Ground Improvement Business	100.0
Advanced Geosolutions Inc. (Equity Method Affiliate)	California, USA	Ground Improvement Business	49.0

Section 2 Business Description

1 Ground Improvement Projects [7]

Ground improvement projects involve construction work to enhance the stability of the ground serving as the foundation for buildings and structures by improving its properties. The majority of projects are subcontracted from general contractors and marine contractors who are prime contractors awarded contracts by public agencies and other entities undertaking construction projects.

To maintain competitiveness in subcontracting, our company develops construction methods and machinery (such as proprietary ground improvement equipment) tailored to client needs.

[7] The descriptions in Sections 1 to 3 of this chapter summarize the content of Section 2.1(3) "Business Activities of Our Group" in the Internal Investigation Committee's report, with some information updated.

This enables us to maintain pricing leverage with prime contractors. As a result, we hold a steady share of the domestic market (annual consolidated sales of nearly ¥40 billion) and maintain a gross profit margin of around 20%.Furthermore, since the 2000s, we have expanded overseas into markets such as the United States, Indonesia, and Vietnam.

Approximately 70% of projects by number and 30% to 40% by completed construction value are projects with a construction period of less than 3 months (completion standard), with very few projects exceeding one year. Consequently, we undertake a large number of projects, around 300 annually, most of which have a construction period of 1 to 2 months and a contract value of approximately 50 million to 100 million yen.

Most projects are contracted solely by our company, and the types of work handled are limited. Consequently, many sites are managed by a single construction site manager stationed on-site for construction management (hereinafter, a construction site manager operating under this system is referred to as a "single-manager site").Even with relatively short years of field experience, it is possible to accumulate experience by handling a large number of projects. Consequently, there is a tendency for relatively young employees to assume the role of site manager. For the majority of projects, rather than establishing individual project offices, the company adopts a style of establishing regional headquarters offices. Multiple site managers commute to and from the relevant regional headquarters office.

While costs related to subcontracted labor, materials, and machinery depreciation/management fees for dedicated equipment account for approximately 80% of total costs, the construction site manager generally makes sole decisions on orders, including those involving work site approvals discussed later.

Unlike the mutual checks and balances seen in joint ventures for civil engineering projects discussed next, or the continuous budget management typical of long-term projects, there is a tendency to emphasize performance management (completing the project in fewer days than the scheduled construction period).

2. Civil Engineering Projects

In civil engineering projects, the company acts as the prime contractor, receiving orders and performing civil engineering work. The main business consists of public infrastructure development projects such as roads and port construction ordered by government agencies, with few orders from the private sector.

Annual sales for civil engineering projects (on a consolidated basis) are around ¥30 billion, with a gross profit margin of approximately 10%. This low gross profit margin is likely due to the fact that orders are primarily from government agencies and are based on competitive bidding.

The order structure for civil engineering projects is approximately 40% sole contracts and 60% joint venture contracts. Even for sole contracts, projects with construction periods under three months are extremely rare. For example, construction of dams, tunnels, and similar projects often spans two to three years, and depending on the scale, some projects can extend beyond five years. The annual number of contracts is around 30, with contract values typically ranging from ¥500 million, while large-scale projects can reach around ¥5 billion.

In civil engineering projects, not only the site manager and supervising engineer but also multiple technical staff members are stationed at the construction site

to manage construction. Material orders placed by the chief engineer require approval from the supervising engineer or site manager. Even when the site manager places orders, the supervising engineer and chief engineer can understand the details. Furthermore, civil engineering projects involve multiple trades, leading to transactions with numerous subcontractors at a single site. Multiple technical staff are assigned per trade not only for construction (quality) management but also for budget management.

Factors such as the prevalence of projects spanning multiple fiscal years (so-called progress-based projects) and the high number of contracts awarded to joint ventures contribute to the implementation of continuous budget management and the functioning of de facto checks through mutual oversight among companies.

3. Other Businesses

(1) Block Business

This business involves the rental of steel formwork for wave-dissipating and root-stabilizing blocks, as well as the sale of environmental products.

Transaction partners are rental and delivery clients for steel formwork for wave-dissipating and root-stabilizing blocks. Annual sales generally range from approximately ¥2.5 billion to ¥4 billion, with gross profit margins, considering indirect costs, fluctuating around 30% to 50%.

Cooperating partners in the Block Business are primarily operators of stockyards that store formwork for block manufacturing. Furthermore, as this is not a construction business, there are no site managers as seen in ground improvement projects. Order placement procedures are completed when sales representatives share order information with stockyard operators within the system. Therefore, individual ordering actions, as seen in ground improvement projects, do not exist.

(2) Insurance Agency, etc.

Fukushi Shoji Co., Ltd. provides insurance agency services to companies within our group. However, since this is fundamentally not a construction business, its operational characteristics are entirely different from those of ground improvement projects.

4 Cooperative Vendors

In ground improvement and civil engineering projects, transactions occur with numerous contractors (subcontractors) for on-site procurement of materials and equipment.

Regarding ground improvement projects, one characteristic is that the types of work are limited, and the project structure involves numerous sites with short construction periods. This makes it easier for transactions with specific subcontractors to continue frequently and over long periods. The internal investigation committee's report pointed out suspicions that some of these long-standing subcontractors were actively involved in inappropriate conduct.

In response, the Company has decided to implement the following measures as part of its recurrence prevention strategy.

- We will regularly request subcontractors, through interviews and other methods, to refuse inappropriate demands made by our employees and to actively utilize our internal reporting system.
- Through the framework of the Safety and Health Cooperation Association (of which our partner companies are members and which conducts training, etc.), we will provide education and training on the occurrence of improper conduct cases, their causes, and measures to prevent recurrence, as well as requests for proper transactions in general, including the use of the internal reporting system.

We will also request compliance with proper business practices overall, including adherence to the Construction Industry Act and the Subcontracting Act.

- We will strengthen monitoring and deterrence by sampling subcontractors and conducting regular compliance surveys, including inquiries about the presence of inappropriate requests from our employees.

Furthermore, to ensure the effectiveness of these recurrence prevention measures, we have established CSR procurement guidelines and defined criteria for suspending transactions. We have also incorporated provisions into contracts with business partners to enable the suspension of transactions in cases of violation.

Section 3 Performance Trends

1 Non-consolidated Performance

The Company's performance (non-consolidated) trends are as follows.

(Unit: million yen)

Fiscal Year End	March 2021	March 2022	March 2023	March 2024	March 2025
Sales Revenue	65,798	59,023	65,264	61,980	63,694
Ordinary Income	3,859	2,851	3,957	2,524	3,037
Net Income	2,484	1,777	2,692	2,627	2,012
Net Assets	27,158	27,492	29,312	31,212	32,161
Total Assets	49,317	46,819	51,749	51,228	60,362

2 Performance by Business Segment

The Company's performance (consolidated) for each business segment over the most recent five fiscal years is as follows.

(Unit: million yen)

Fiscal Year End		March 2021	March 2022	March 2023	March 2024	March 2025
Sales Revenue	Ground Improvement Business	32,777	31,609	35,300	39,149	39,283
	Civil Engineering	35,617	32,087	32,159	26,017	28,384
	Block Business	4,367	3,704	2,711	3,453	2,647
	Other	609	584	782	740	341
	Adjustment Amount	▲1,063	▲1,206	▲486	▲1,411	▲1,097
	Company Total	72,308	66,778	70,466	67,947	69,557
Operating profit Profit or Loss	Ground Improvement Business	2,314	1,862	2,597	4,060	3,395
	Civil Engineering	2,235	987	1,303	▲1,496	559
	Block Business	988	530	▲406	70	63
	Other	▲355	20	33	32	22
	Adjustment Amount	▲664	▲102	74	▲10	▲861

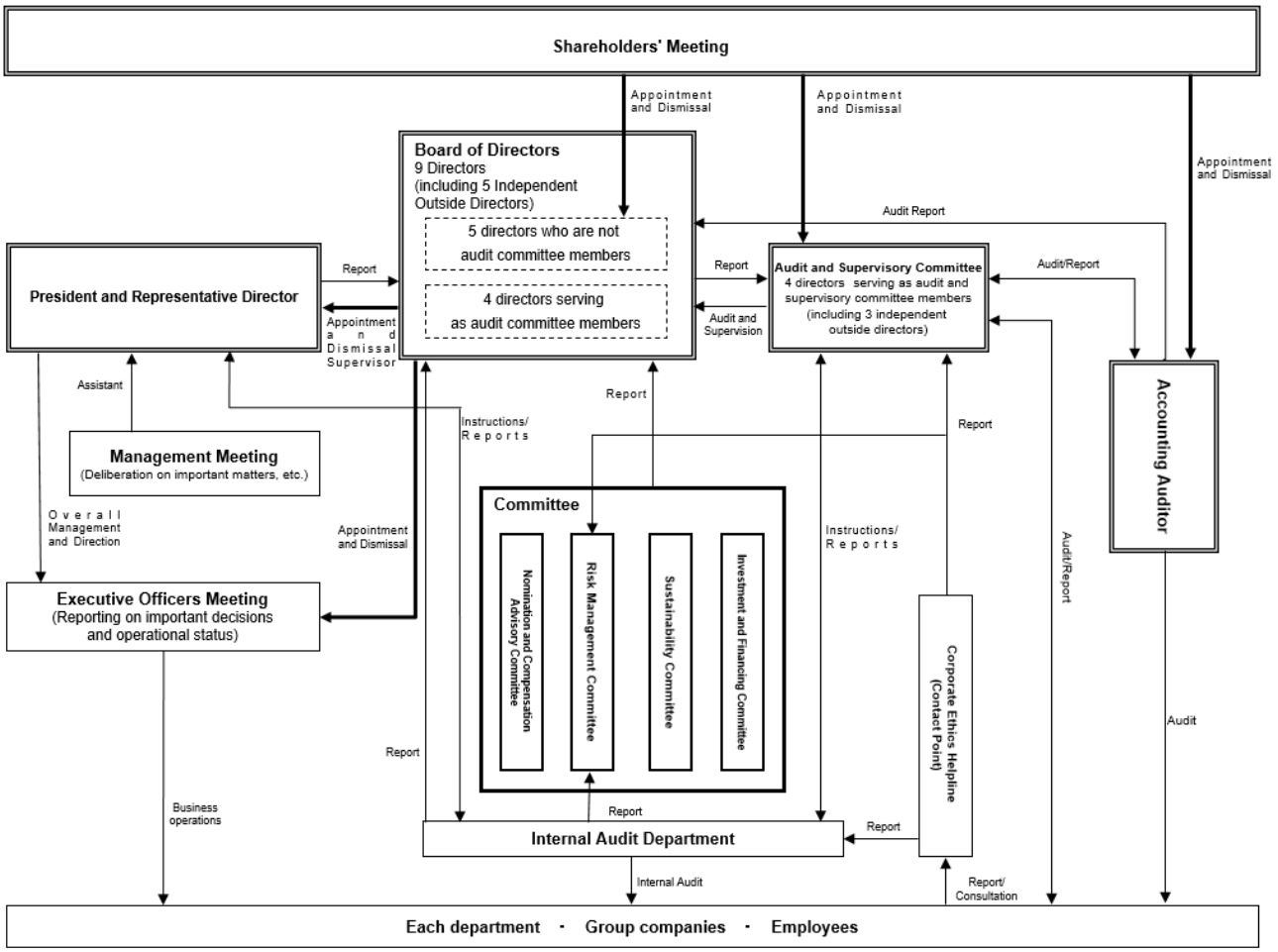
	Company Total	4,518	3,297	3,602	2,656	3,177

Section 4 Organizational Structure and Status of Internal Controls and Governance

1 Organizational Structure

(1) Organizational Structure

The Company is a publicly listed corporation with an Audit and Supervisory Committee. Its main organizational structure consists of the Board of Directors, the Audit and Supervisory Committee, and the Accounting Auditor. An overview of the organizational structure is shown in the following chart (taken from the Securities Report for the fiscal year ended March 2025).



The Company has nine directors: five directors who are not members of the Audit and Supervisory Committee (including two outside directors), four directors who are members of the Audit and Supervisory Committee (one full-time inside director and three outside directors), and one director who is not a member of the Audit and Supervisory Committee. All outside directors are registered by the Company with the Tokyo Stock Exchange as independent directors.

The outside directors are all outside directors (independent outside directors) whom the Company has notified to the Tokyo Stock Exchange as independent officers.

Among the directors, the President serves as the Representative Director. Two of the directors who are not members of the Audit and Supervisory Committee are in-house directors (also serving as Executive Vice President or Managing Executive Officer), responsible for the Civil Engineering Business, Ground Improvement Business, and Block Environment Business, respectively, as well as serving as General Manager of the Administration Division and responsible for the Safety, Quality, and Environment Division.

Furthermore, to strengthen and streamline its operational structure, the Company has adopted an executive officer system.

21 executive officers (including 3 Executive Vice Presidents, 1 Senior Managing Executive Officer, and 6 Managing Executive Officers) have been appointed, forming the voluntary Executive Officers' Meeting. The Executive Officers' Meeting (held once every two months in principle) consists of the President and Representative Director and all Executive Officers, where important decisions regarding management and reports on the status of business execution are made.

(2) Changes in Officers

The changes in the Company's officer structure since the June 2021 Ordinary General Meeting of Shareholders are as follows. The table below highlights the tenure periods of officers and lists their positions during their tenure.

Officer Name		June 2021	June 2022	June 2023	June 2024	June 2025
Non-Audit Committee Member Directors	Yuji Takehara	Chairman	Chairman	Chairman	Chairman	
	Shinya Okuda	President	President	President	President	President
	Jun Ohbayashi	Ground Engineering Division Manager	Ground Engineering Division Manager	Ground Engineering Division Manager	Ground Engineering Division Manager	In Charge of Civil Engineering, Ground Engineering, and Environment Businesses
	Shoichi Kitagawa	Head of Administration Division	Head of Administration Division			
	Yoji Kawachi			General Manager, Administration Division	General Manager, Administration Division	Head of Administration Division, in charge of Safety, Quality, and Environment Division
	Shinichiro Hososaka	Head of Civil Engineering Division				
	Akihiko Tadano		Head of Civil Engineering Division	Head of Civil Engineering Division	Head of Civil Engineering Division and Sales Department Manager	
	Chihiro Niiyama		Block Environmental Business Division Manager	Block Environmental Business Division Manager and Director, General Technology Research Institute	Block Environmental Business Division Manager	
	Mari Osawa	Outside	Outside	Outside	Outside	Outside
	Tomohiro Kawamura					Outside
Director serving as Audit Committee Member	Nobuyuki Hirotani	Full-time				
	Motoji Okamura		Full-time	Full-time		
	Kumiko Miura				Full-time	Full-time
	Susumu Terasawa	Outside				
	Seiichi Nagata	Outside	Outside	Outside		
	Kiyoyuki Kuroda	Outside	Outside	Outside	Outside	Outside
	Masaji Suzuki		Outside	Outside	Outside	Outside
	Kiyoshi Maeda				Outside	Outside

(3) Internal Organization

The internal organizational structure after 2020 is generally as shown in the attached Internal Organization Chart (as of May 1, 2025).(There have been no major reorganizations except for the division of the General Affairs and Personnel Department within the Management Headquarters into the General Affairs Department and the Personnel Department, the establishment of the Machinery Department within the Ground Improvement Business Headquarters, and the succession of the construction machinery rental business (including maintenance and repair services for construction machinery) from Soil Technica through an absorption-type split effective April 1, 2023).

2. Status of the Board of Directors

(1) Overview of the Board of Directors

The Board of Directors generally convenes once a month. Based on laws, the Articles of Incorporation, and the Board of Directors Regulations, it deliberates and decides on important management matters such as the medium-term management plan, annual plans, financial results, key personnel appointments (including director candidates and senior management), director compensation, the company's organizational and operational structure, ESG, compliance, risk management, and other important management matters. It also supervises the execution of duties by each director by receiving reports on the status of business execution from directors who are not Audit and Supervisory Committee members (excluding outside directors).

Furthermore, important management matters are submitted to the Board of Directors for deliberation. Decisions on important business execution delegated by the Board of Directors, including those matters, are executed after deliberation by the Management Committee (held once a month in principle).

(2) Voluntary Committees

As advisory bodies to the Board of Directors, the following voluntary committees are established and operated: the Nomination and Compensation Advisory Committee, which deliberates on the nomination and compensation of directors and senior management; the Risk Management Committee, which deliberates on important matters concerning internal controls, risk management, and compliance; the Sustainability Committee, which deliberates on important matters concerning sustainable management; and the Investment and Financing Committee, which deliberates on important matters concerning investment and financing.

(3) Nomination of Directors

Directors are nominated under the policy that the Board as a whole should achieve an optimal balance of knowledge, experience, and capabilities. This is achieved by selecting directors from diverse backgrounds with varied experience and expertise, including considerations of gender, internationality, professional history, and age, in light of their roles and responsibilities.

The Company identifies the following as particularly important knowledge, experience, and capabilities expected of directors: ① Corporate Management and Business Strategy, ② Sales and industry knowledge, ③ Overseas operations, ④ Research and development/IT, ⑤ Finance and accounting, ⑥ Human resources, labor relations, and occupational safety and health, ⑦ Legal affairs, compliance, and risk management, and ⑧ Environmental, social, and governance (ESG) issues.

Nominations of director candidates, appointments and dismissals of executive officers, and compensation (excluding compensation for directors serving as Audit and Supervisory Committee members) are deliberated by the Nomination and Compensation Advisory Committee, consisting of five independent outside directors and the President and Representative Director, totaling six members. Based on this deliberation, the Board of Directors makes the final decision.

Considering the role and responsibilities of directors serving as Audit Committee members to supervise and audit the execution of duties by directors, candidates must be nominated who can appropriately perform these duties. At least one candidate must possess sufficient expertise in finance and accounting.

Furthermore, considering the role and responsibilities of outside directors, specific criteria for independence are established to ensure their independence in substance. Candidates who do not violate these criteria are nominated.

3 Status of the Risk Management Committee

The Risk Management Committee consists of all full-time directors and managing executive officers (Block Environmental Business Division Head, Civil Engineering Business Division Head, Ground Engineering Business Division Head, Safety, Quality and Environment Division Head, and General Technology Research Institute Director). Part-time directors may also attend as observers and express opinions (Article 2 of the Risk Management Committee Regulations).

Matters deliberated by the committee include the establishment, operation, and evaluation of internal control systems related to risk management, as well as the formulation of response policies and recurrence prevention measures in the event of major incidents such as scandals (Article 6 of the same regulations).

The Compliance Violation Response Manual stipulates that in certain cases, such as when suspicion of violations of laws and regulations is confirmed (including when suspicion arises during tax investigations, etc.), an initial investigation by the General Affairs Department Manager shall be conducted, followed by notification to Risk Management Committee members, outside directors, the Audit and Supervisory Committee, and the Internal Audit Department (Manual Articles 2 and 3).

Members of the Risk Management Committee, outside directors, and the Audit and Supervisory Committee may request a meeting of the Risk Management Committee when they determine that the response policy for a reported compliance violation requires deliberation by the Risk Management Committee. At the convened Risk Management Committee meeting, , depending on the severity and social impact of the compliance violation, the committee shall deliberate on the implementation methods for investigating causes and preventing recurrence, and shall submit a proposal to the Board of Directors, including whether a third-party committee should be established.

Furthermore, in cases of compliance violations with significant social impact requiring particular urgency, or when a third-party committee is established, the chairperson of the Risk Management Committee (the President) may establish an Emergency Response Headquarters. The President appoints its members and the head of the headquarters. After the Emergency Response Headquarters is dissolved, the Risk Management Committee takes over the response (Manual 5.1).

4 Status of the Audit and Supervisory Committee

The Audit and Supervisory Committee consists of one full-time Audit and Supervisory Committee member serving as chairperson and three part-time Audit and Supervisory Committee members who are independent outside directors, totaling four members. As previously stated, at least one member of the Audit and Supervisory Committee must be designated as having sufficient knowledge of finance and accounting. As mentioned above, at least one of the Audit and Supervisory Committee members must be designated as having sufficient knowledge of finance and accounting.

The Audit and Supervisory Committee meets once a month in principle to decide on and deliberate matters necessary for auditing and supervision

(Audit and Supervisory Committee Regulations, Article 4) Audit and Supervisory Committee members are granted authority to attend important meetings and access all important company documents, including meeting materials and minutes, other meeting documents, decision documents, and internal control-related documents.

Officers and employees of the Group are required to report facts that could cause significant damage to the company to Audit Committee members or the Audit Committee. They must regularly report on business execution status to the Board of Directors and report necessary matters to Audit Committee members. Furthermore, they are required to share information with the Audit Committee on important management matters, including the establishment and operation of the internal control system, at important meetings such as the Board of Directors, Management Committee, Executive Officers' Meeting, and Risk Management Committee.

The President and Representative Director endeavors to exchange information and opinions with directors who are Audit and Supervisory Committee members on a wide range of management issues, including business plans and performance. This includes holding regular opinion exchange meetings. In principle, meetings between the President and Representative Director and Audit and Supervisory Committee members are held once every three months. Additionally, regular meetings are held between other directors (excluding outside directors) and Audit and Supervisory Committee members to exchange information and opinions.

Furthermore, to strengthen the oversight and audit functions of the Audit and Supervisory Committee and ensure their effectiveness, materials for Board of Directors meetings are provided to Audit and Supervisory Committee members at least three days prior to the meeting date. Audit and Supervisory Committee members are also granted access rights to accounting, operational processing, and document management systems.

Furthermore, two employees each from the General Affairs Department and the Internal Audit Department are designated as staff members to assist the Audit and Supervisory Committee. The Audit and Supervisory Committee may directly issue instructions to these assistants regarding the support of its duties.

Audit and Supervisory Committee members are required to attend accounting audits conducted by the accounting auditor as necessary. They also receive reports from the accounting auditor regarding audit plans, audit reports, and review results, with the Internal Audit Department present. Furthermore, they exchange opinions and information regarding audit plans, audit implementation status, and audit results, and strive to coordinate with each other.

Furthermore, when conducting on-site inspections, audits, etc., at headquarters, main branches, work sites, etc., joint audits with internal audits conducted by the internal audit department are to be performed as necessary.

5. Status of Internal Audit

The Audit Department (Audit Section), which handles the Company's internal audit function, currently consists of three employees (this three-person structure has been maintained since April 2022) One of these employees concurrently serves as both Department Manager and Section Manager. Of the remaining two employees, one is a senior staff member.

The Audit Department regularly audits all operations to verify their appropriateness. While reporting directly to the President and Representative Director, to ensure the effectiveness of internal audits, it reports audit results (including the status of corrective actions) to the full-time Audit and Supervisory Committee members and the Audit and Supervisory Committee as appropriate, and also reports regularly to the Board of Directors.

Furthermore, the Audit Department attends Audit and Supervisory Committee meetings as the secretariat and holds a regular monthly meeting with the full-time Audit and Supervisory Committee members.

At these meetings, they shall exchange information and opinions regarding mutual audit results within the Group, the status of corrective actions, and the progress of audit plans, and report the content to the President and Representative Director.

6 Management System for Each Business

(1) Business Divisions

The Company has three business divisions: the Civil Engineering Division, the Ground Improvement Division, and the Block Environment Division. Each business division has the following departments and sections.

Business Division	Department	Section/Office	Division of Responsibilities
Civil Engineering Division	Administration Department	Administration Section	・Compilation of performance data by branch for civil engineering projects (orders received, projects completed, gross profit, fixed costs, operating profit) ・ Compilation of mid-term and annual business plans for civil engineering operations (orders received, projects completed, gross profit, fixed costs, operating profit) ・Budget management and cost control by project and work type for civil engineering projects at Store A (Tokyo Head Office) and Store B (Tohoku Branch, Chubu Branch, Osaka Branch, and Kyushu Branch) ・Financial closing procedures for civil engineering projects at Store A and Store B ・Consolidation of budget management and cost control by project and work type for the head office and branches ・Handling settlement processing for the head office and branches (individual project settlement tasks) Summary etc.
	Sales Department	Sales Section	・Collection of government project information and coordination with headquarters/branches for project selection and order acquisition support ・Mid-to-long-term civil engineering order plans and annual order plans ・Sales activities targeting nationwide customers among private sector entities etc.
		Estimating Department	・Coordinating and leveling company-wide estimation operations ・Overall cost estimation for civil engineering projects etc.
	Construction Department	Construction Management Section	・Store-by-store performance management (completion rate, gross profit) ・Planning, coordination, and finalization of construction personnel assignments ・Participation in and advice for pre-order NET review meetings, NET screening meetings, and in-process review meetings, as well as confirmation of progress on measures etc.

		Construction Division	・Individual Construction Project Performance Management (Completion & Gross Profit) ・Participation in and advice for pre-order NET review meetings, NET screening meetings, and in-process review meetings, and confirmation of progress on measures ・Business support for base construction projects
		Civil Engineering DX Promotion Section	・Education and training of construction personnel in DX initiatives etc.
		Construction Technology Support Support Office	・Verification and improvement of proposed technologies in comprehensive evaluations, etc. ・Improvement and support for various issues at construction sites etc.
	Technical Department	Design Section	・Supporting sales projects through VE proposals, technical proposals, etc. to support order acquisition etc.
		Development Section	・Development of new technologies for comprehensive evaluation, NETIS registration, and utilization
		Technical Sales Section	・Supporting order acquisition by preparing VE proposals, technical proposals, and construction plans for comprehensive evaluation projects etc.
		Environmental Solutions Office	・Support for winning orders and construction through VE proposals and technical proposals for environmental projects etc.
	Purchasing Department	Purchasing Section	・Selection of key equipment/materials and subcontracting partners; price negotiations ・Support for quantity surveying tasks ・Participation in pre-order review meetings, pre-construction preparation meetings, and NET review meetings ・Management of partner companies (evaluation, guidance, trend surveys, etc.)
		Contract Section	・Conclusion of contracts with subcontractors and issuance/storage of purchase orders and order acknowledgments and their storage etc.
Ground Engineering Division	Administration Department	Administration Section	・Compilation of performance data by branch for ground improvement projects (orders received, projects completed, gross profit, fixed costs, operating profit) ・ Compilation of medium-term and annual business plans for ground improvement projects (orders received, projects completed, gross profit, fixed costs, operating profit) ・Compilation of expenses and capital investment for ground improvement projects ・Budget management and cost control by project and work type for headquarters and branches ・Handling year-end closing procedures for headquarters and branches (settlement of individual projects) ・Participation in pre-construction meetings, NET review meetings, etc. ・Accounting processing for the main office and branches etc.

		Machinery Management Section	・Matters concerning the Machinery Department's performance ・Matters concerning capital investment for the Machinery Department ・Procurement of major machinery and equipment for the Machinery Center and ordering of outsourced labor ・Cash disbursements within the Machinery Center ・Budget formulation and management for general administrative expenses of the Machinery Center Management etc.
	Sales Department	Sales Section	・Support for orders received by the head office and branches ・Proposal sales targeting business owners, design firms, and others ・Formulation of sales strategies and promotion of joint research etc.
	International Department	Administration Section	・Risk management for overseas contracts and fund recovery ・Planning, coordination, and promotion of business alliances with foreign companies ・Contract, tax, fund, and accounting processing for overseas operations • Performance Management etc.
		Sales Department	・Sales activities utilizing overseas partner companies, etc. ・Sales activities for securing overseas construction projects and post-award operations ・Sales administration related to overseas orders etc.
		Construction Department	・Preparation of quotations and sales support for overseas project awards ・Creation of NETs for overseas construction projects ・Support for overseas construction project execution etc.
		Ho Chi Minh City, Jakarta, Bangladesh Offices	・Collection and analysis of sales information ・Sales activities related to client development and obtaining project information ・Local contract, tax, funding, accounting processing, and personnel support Performance management etc.
	Construction Department	Construction Division	・Project-by-project and store-by-store performance management (completion, gross profit, fixed costs, ordinary net profit) ・ Formulation and consolidation of medium-term and annual business plans for ground improvement projects (completion, gross profit, fixed costs, ordinary net profit) ・Planning, coordination, and finalization of construction personnel assignments ・Participation in and advice for pre-order NET review meetings and NET screening committees etc.

		Construction Department	・Management of construction project performance (completion, gross profit) ・Operational support for base construction projects
		Construction Technology Support Office Support Office	・Improvement and support for various issues at construction sites ・Support for cost estimation and budgeting tasks etc.
	Engineering Department	Technical Planning Section	・External activities with universities, consultants, research institutions, etc. ・Collection and management of technical materials etc.
		Design Planning Section	・Centralized management of head office and branch office review information ・Support for head office and branch design and technical proposals etc.
		Architectural Fundamentals Engineering Technical Section	・Technical and sales support for building foundation projects ・Development of new construction methods for new building projects etc.
		International Engineering Division	・Technical support for overseas projects etc.
		ICT Promotion Office	・Planning for ICT technology implementation etc.
		Development Section	・Selection of research and development themes ・Research and development of new technologies (including improvements and applied technologies), design and implementation etc.
	Machinery Department	Safety Section	・Formulation of annual policies and implementation plans for safety, health, and environmental matters within the Machinery Department Formulation of annual policy and implementation plans for safety, health, and environment in the Machinery Department etc.
		Machinery Section	・Participation in NET review meetings ・Matters concerning the allocation of construction equipment and machinery operation personnel Items etc.
		Maintenance Section	・Maintenance, repair, and fabrication of construction machinery etc.
	Machinery Engineering Department	Mechanical Engineering Planning Planning Section	・Planning and formulation of construction machinery and vessels, including future projections Planning and formulation etc.
		Machine Design Section	・Matters related to machinery and ship design etc.
	Purchasing Department	Purchasing Section	・Selection of primary equipment and materials, and subcontracting partners; price negotiations ・Support for cost estimation tasks ・Participation in pre-order review meetings, pre-construction preparation meetings, and NET review meetings ・Management of partner companies (evaluation, guidance, trend surveys, etc.)
		Contract Section	・Conclusion of contracts with partner companies and issuance/storage of purchase orders and order acknowledgments and their storage etc.

Block Environmental Business	Management Department		・Mid-term management plan for Block Environmental Business and annual Business Plan Formulation and Consolidation ・Formulation of budget, personnel allocation, and management resource allocation plans for the Base Sales Department, sales offices, and offices and other management resource allocation plans ・Handling of financial settlements for headquarters and branches etc.
	Technical Department		・Technical proposals for block and environmental products (including design, numerical calculations, hydraulic model experiments)
	Sales Department		・Formulation of annual plans for business division sales activities ・Sales strategy (development and improvement of block and environmental products) Formulation (including planning and proposal development) ・Proposal sales targeting business owners, design firms, etc.

(2) Head Office and Branches

As subordinate units of the Business Headquarters, regional bases called the Head Office (Tokyo) or Branches (Tohoku, Chubu, Osaka, Kyushu, Hokkaido, Kitakanto, Hokuriku, Chugoku, Shikoku, Chiba, Yokohama) are established. The Tohoku, Chubu, Osaka, and Kyushu Branches have Sales Departments and Construction Departments organized by business segment. The North Kanto, Hokuriku, and Chugoku Branches have Branch Sales Departments and Ground Improvement Departments.

The Chiba and Yokohama Branches belong to the Tokyo Head Office. Only sales sections are located at these branches; construction work is carried out by the Construction Department at the Tokyo Head Office.

(3) Office

For ground improvement and civil engineering projects, offices called construction offices or general offices are established for each construction site or for specific areas. These serve as bases for activities by site managers, including the construction site manager.

Particularly in ground improvement projects, due to the prevalence of small-scale works, a regional comprehensive office format is often adopted. Personnel responsible for multiple construction sites within the area share this office, creating a space for information exchange beyond their respective projects.

(4) Command Structure

Construction projects in ground improvement and civil engineering are fundamentally carried out for projects acquired by the Sales Department sections at the head office and branch offices.

While the assignment of personnel to each project and the management of project budgets fall under the jurisdiction of the Construction Department within each Business Headquarters, the actual construction sites are placed under the management of the Construction Department sections at the head office and branch offices. The reason construction sites are managed by the construction departments at headquarters and branches, while all project managers are assigned to the construction departments of each business division rather than headquarters or branches, is to enable the construction departments of each business division to comprehensively oversee and manage project managers. This allows for flexible and appropriate assignment of project managers based on project order status and manager availability, without being constrained by the regional divisions of headquarters or branches.

Furthermore, once assigned personnel enter a construction site managed by the construction department section of the head office or branch, they will receive direction and orders exclusively from that head office or branch's construction department section regarding the implementation of the specific construction project.

Furthermore, once assigned personnel enter a construction site managed by a head office or branch construction department section, they receive direction and orders exclusively from that head office or branch construction department section regarding the execution of the relevant construction project.

7 Budget Control and Management Framework

The budget management framework for individual ground improvement and civil engineering projects is generally as follows (based on the construction management regulations for each project)

(1) Pre-Order Review

A Selection of Personnel, etc.

When the project headquarters' construction department receives a request from the sales department to select personnel, etc., prior to order acceptance, it coordinates with relevant departments and develops a staffing plan.

B Pre-order Construction Plan and Budget Proposal Preparation

When the head office/branch construction department receives a request from the sales department for pre-order review work, it shall collaborate with other departments to understand customer requirements, prepare a draft construction plan and budget proposal, and submit them to the pre-order review meeting.

C Pre-Order NET Review Meeting

Based on the materials from items A and B above, the head office/branch office's estimation personnel (for ground improvement projects: the Construction Department Manager or Site Manager[8]; for civil engineering projects: the head office/branch office's Construction Department Manager, Section Manager, Engineering Section Manager, Estimation Section Manager, or Site Manager) shall perform cost estimation. Subsequently, a Pre-Order NET Review Meeting shall be held, chaired by the head office/branch office's Sales Department Manager. The meeting will review: ①the appropriateness of the estimated (calculated) amount, ②compliance with customer requirements, ③profitability, and ④the projected bid amount.

Attendees for the pre-order NET review meeting are as follows.

Ground Improvement Projects	Civil Engineering Projects
・Head Office Manager / Deputy Head Office Manager ・Branch Sales Department Manager, Section Manager, Sales Representatives ・Branch Construction Department Manager, Section Chief, Site Manager ・Head Office/Branch Research Department Manager and Staff ・Head Office/Branch Purchasing Department Manager/Section Chief ・Other personnel deemed necessary (Headquarters Construction Department Manager and Deputy Manager, Headquarters Construction Department Engineering Section Manager, Technical Department Manager, Safety Section Manager, Safety Office Manager, Machine Center Machine Section Manager, and others)	・Business Division Head or Deputy Business Division Head (rough estimate) Proposals that do not meet certain standards for profit margin, etc.) ・Head Office/Branch Office Manager, Deputy Branch Office Manager ・Head Office/Branch Construction Department Managers/Section Chiefs, Engineering Section Chiefs, Estimation Section Chief, Construction Site Manager ・Head Office/Branch Sales Department Manager/Section Chief ・Sales Staff ・Estimation Staff

[8]The "Worksite Manager" mentioned in Section 7 refers to the "Construction Site Manager."

	・Headquarters Sales Department Manager ・Headquarters Purchasing Manager ・ Purchasing Staff ・Other persons deemed necessary

E Internal Approval

After conducting a pre-order NET review meeting, submit a bid following approval by the head office and branch managers.

(2) Preparation of the Implementation Budget Proposal

After order acceptance, the worksite prepares a construction plan before commencement. Based on this plan, costs are calculated and an execution budget proposal is created. The Head Office/Branch Construction Department Manager convenes a NET review meeting prior to construction to determine the execution budget. The NET review meeting examines the following items:

Ground Improvement Projects	Civil Engineering Projects
Attendees	
・Head Office Branch Manager, Deputy Branch Manager ・Head Office Construction Department Manager/Section Chief, Construction Site Manager ・Head Office Sales Department Manager, Section Chiefs, Sales Representatives ・Head Office/Branch Research Department Manager and Staff ・Headquarters Construction Department Engineering Section Manager ・Machinery Center Machinery Section Manager ・Head Office/Branch Purchasing Department Manager/Section Chief ・Headquarters Construction Department Deputy Manager ・Other personnel deemed necessary (Administration Department, Engineering Department, Safety, etc.)	・Head Office Branch Manager, Deputy Branch Manager ・Head Office/Branch Construction Department Manager/Section Chief, Construction Management Section Chief, Site Manager ・NET Reviewer (for construction projects valued at ¥100 million or more) ・Head Office/Branch Sales Department Manager, Section Chief, Sales Staff ・Head Office/Branch General Affairs Section Chief ・Head Office/Branch Safety and Environment Department Manager/Section Chief ・Head Office/Branch Technical Department Section Chiefs ・Headquarters Construction Department Manager/Section Chief, Construction Management Section Chief ・Headquarters Management Department Manager and Section Chief ・Other persons deemed necessary
Review Items	
①Measures for generating and securing construction profits, confirmation of construction methods ②Appropriateness of current budget and methods for securing allocated budgets ③Confirmation of scheduled subcontractors ④Confirmation of the current budget ⑤Confirmation of final profit projections ⑥Confirmation of construction conditions ⑦Confirmation and guidance on safety measures, etc. ⑧Confirmation of working hours	①Measures for Generating and Securing Project Profit (Means, Methods, Role Allocation) ②Measures for Achieving Allocated Budget (Means, Methods, Role Assignments) ③Confirmation of Current NET ④Calculation of final profit forecast

After the NET Review Meeting, the Head Office/Branch Manager determines the actual budget profit and target profit (allocated budget) based on the review results. The Head Office/Branch Construction Department Manager and the work site formulate measures to achieve the allocated budget and submit them to the Head Office/Branch Manager.

The head of the main/branch office construction department compiles the results of the NET review meeting into the "NET Review Meeting Minutes." The worksite revises and updates the execution budget (or the Individual Project Net Profit Management Sheet for civil engineering projects) based on the NET review meeting results, finalizing it after approval by the head of the main/branch office.

(3) Post-Commencement Review

After commencement, a NET Review Committee meeting shall be held to consider revising the allocated budget in the following cases:

Ground Improvement Projects	Civil Engineering Projects
For projects with a construction period of less than one year	
・When the gross profit margin fluctuates by 5% or more ・When the Deputy Director of the Head Office Construction Department or the Department Manager of the Head Office or Branch Office Construction Department deems it necessary	・When deemed necessary by the Construction Department Manager
For projects with a construction period of one year or more	
・Held at least once per year ・When the gross profit margin fluctuates by 5% or more ・When the percentage of work completed exceeds 50% ・When changes are expected to exceed 10% of the project price ・When the previously approved budget undergoes significant changes ・When the Deputy Director of the Headquarters Construction Department deems it necessary ・When the Deputy Director of the Headquarters Construction Department deems it necessary	・Held at least once a year ・When the progress exceeds 50% ・When the expected change in cost exceeds 10% of the project price ・When the previously approved budget undergoes significant changes ・When deemed necessary by the Head Office Construction Department Manager or Branch Office Construction Department Manager

Chapter 3 Regarding the Investigation by the Internal Investigation Committee

Section 1 Improper Conduct Identified by the Internal Investigation

1 Regarding the 2022 Case

(1) Overview of the 2022 Case

During a tax audit conducted from December 2021 to March 2022, our company discovered improper accounting practices, including the fictitious recording of construction costs paid to subcontractors, related to ground improvement projects handled by the Chubu Branch (hereinafter referred to as the "2022 Case"). Regarding the 2022 Case, the Management Division conducted a questionnaire survey targeting construction division managers, construction section managers, and branch managers in the Civil Engineering and Ground Improvement divisions (200 individuals), a sampling survey concerning order placement and payment processing, interviews with the two business partners involved in the inappropriate actions in the 2022 Case, and interviews with the three individuals directly involved in the inappropriate actions and relevant personnel from the management and control departments (hereinafter referred to as the "2022 Internal Investigation").

The 2022 cases were determined to involve the following: In certain ground improvement projects at the Chubu Branch, while project performance exceeded expectations, fictitious or disguised orders were placed out of consideration for the difficult circumstances and loss burdens faced by subcontractors. This resulted in the provision of benefits to subcontractors and the shifting of project costs.

Furthermore, it was determined that these improper accounting practices were carried out based on the judgment of the then-Manager of the Ground Improvement Department at the Chubu Branch and two Branch Managers assigned to the same branch, and no involvement by their superiors or personnel from the Management Department or Purchasing Department was recognized.

The 2022 internal investigation identified the following causes for the 2022 cases:

①Lack of compliance awareness

There was a lack of compliance awareness regarding accounting procedures. While recognizing the improper nature of the accounting practices, there was insufficient recognition and understanding of the seriousness of these inappropriate actions, leading to their casual execution.

②Excessive pressure on performance management

Part of the Chubu Branch Groundwork Department misinterpreted the meaning of "improving performance management accuracy," demanding only formal results with no deviation from reported figures.

③Inadequate Checking System for Improper Processing

A system for regularly conducting post-event checks regarding the existence of transactions was not established, resulting in insufficient controls.

In response to the 2022 case, our company implemented the following recurrence prevention measures:

①Enhancement of compliance training

・Submission of compliance pledges from management

・Implementation of training through construction department committees, including subsidiaries

・Introduction of compliance training programs in tiered training sessions

②Expansion of the internal whistleblowing system (Corporate Ethics Helpline) to cover contractors

・Expanding the scope of reportable issues to include our Group's contractors

・Establishment of a reporting channel for unethical or illegal activities in transactions with contractors or at construction sites

・Publicizing the reporting system via websites for contractors, etc.

③Strengthening Internal Control Procedures

・Stricter ordering procedures by site construction departments and purchasing departments, and stricter cost transfer procedures between projects within management departments (enhancing pre-controls)

・Implementation of order authenticity investigations by the management department (strengthening post-event controls)

④Strengthening operational audits

・Verification of the results of the authenticity checks on orders conducted by the administrative department

・Conducting independent verification of order authenticity by the Audit Department

⑤Monitoring the Implementation Status of Preventive Measures

・Regularly monitor the implementation status of recurrence prevention measures and, for the time being, report the execution status of these measures to the Board of Directors on a regular basis

・Improve and correct necessary recurrence prevention measures based on monitoring results

(2) Internal Investigation Committee's Evaluation of Recurrence Prevention Measures for the 2022 Case

The Internal Investigation Committee assessed the Company's recurrence prevention measures following the 2022 case, stating: "A detailed implementation plan was formulated, progress was managed according to this plan, and regular reports were made to the Board of Directors. It is noteworthy that training was conducted through the Construction Department Subcommittee with a focus on the department where the case occurred, and that compliance pledges were solicited from managers in particular. We believe that these measures have achieved a certain level of awareness within the company regarding the problematic nature of accounting treatments such as cost transfers in construction projects." [9]

Furthermore, regarding our compliance framework following the 2022 case, the internal investigation committee assessed that "in response to the 2022 case, we had already implemented certain enhancements to our compliance framework at the time of this investigation. These included strengthening operational audits by the Audit Department, tightening controls to prevent occurrences such as improper cost processing, expanding the corporate ethics helpline to cover partner companies, and introducing tiered compliance training programs."[10]

2 Internal Investigation Committee Findings Regarding the 2024 Case

(1) Improper Conduct Determined by the Internal Investigation Committee

The Internal Investigation Committee determined that 18 employees, including Mr./Ms. A, committed the following improper acts with X Corporation and other business partners [11]. Furthermore, in this report, the terms "cost reclassification," "cost transfer," "receipt of money or goods," and "pooled funds" shall be used with the same definitions as outlined below.

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[9] Internal Investigation Committee Report (Public Version), Page 24

[10] Internal Investigation Committee Report (Public Version), Pages 22-23

[11] In addition to the findings of the Internal Investigation Committee, the Company has identified improper conduct by the following employees and imposed disciplinary measures: Mr./Ms. AK (cost transfer between projects), Mr./Ms.●● (improper use of entertainment expenses), Mr./Ms. Q (cost transfer between projects), Mr./Ms. S

①Cost Item Transfer (The act of transferring cost items by making payments under a different name than the actual goods delivered within the same project)
②Cost Transfer (The act of transferring project costs by making payments to cover costs incurred in a different project)

③Receipt of Cash or Goods (The act of a company employee who placed an order receiving cash, gift certificates, or other valuables)

For these purposes, there are two models: the transfer model, where fictitious payments associated with fictitious orders were transferred each time, and the pool fund model, where payments were deposited with external cooperating contractors (the deposited amount being termed a "pool fund"), and this deposited pool fund was then drawn down and used for the aforementioned purposes([12]).

The internal investigation committee determined that the total amount involved in the fictitious or inflated invoices under ①was ¥40,269,652.

The Internal Investigation Committee also investigated whether Mr./Ms. A's superiors were involved in or directed these improper acts but determined that no involvement by superiors was found. However, the Internal Investigation Committee's report does not state whether investigations were conducted into the involvement of superiors of other individuals involved in improper transactions besides Mr./Ms. A.

(2) Causes of Improper Transactions Identified by the Internal Investigation Committee

A Premise for the Internal Investigation Committee's Cause Analysis

In analyzing the causes of the improper transactions, the Internal Investigation Committee proceeded on the premise that strict disciplinary actions and recurrence prevention measures had been implemented for the 2022 case. It then determined that analysis was needed on why multiple instances of improper conduct continued to occur at sites under the jurisdiction of the Tokyo Head Office Groundwork Department after 2022, what common and unique circumstances existed among the perpetrators in this case, and how the response to the 2022 case affected these points. Based on this perspective, the Committee evaluated the actions of the individuals involved in each inappropriate transaction and conducted its root cause analysis.

B Cause Analysis by the Internal Investigation Committee

The following is an overview of the cause analysis conducted by the Internal Investigation Committee based on the above perspective.

①Evaluation of Mr./Ms. A's Actions

Mr./Ms. A's inappropriate transactions stemmed from two factors: special circumstances where Mr./Ms. A incurred significant credit card debt and faced financial hardship after personally covering expenses for internal social gatherings involving his/her former supervisor from the Tokyo Head Office Groundwork Department and other regional executives; and a misguided sense of justification that using company funds for personal expenses benefited the company.

(Cost transfers between projects), Mr./Ms. ●● (receipt of money/gifts), Mr./Ms. ●● (inappropriate budget handling). Additionally, six managers received reprimands for insufficient guidance and supervision.

[12] Internal Investigation Committee Report (Public Version), Page 24

②Assessment of Mr./Ms. B and Other Perpetrators

Mr./Ms. B, while repeatedly shifting costs using pooled funds and becoming desensitized to compliance, justified his/her actions by believing that Mr./Ms. B was not receiving compensation commensurate with his/her project performance and that profits generated on-site were not being used appropriately, concluding that some personal use was permissible. A similar analysis applies to the other perpetrators.

③Persistent Low Compliance Awareness Among Some Employees

In the ground improvement business, cost transfers within the same project or between projects had long been practiced to save effort, and this was accepted to some extent by subcontractors. It cannot be denied that such methods were passed down from senior project managers to their juniors.

Regarding entertainment expenses, there was a certain lack of strictness in budget execution and expense disbursement.

These practices, while limited to some employees, may have dulled their compliance awareness, reduced resistance to cost reallocation, and contributed to the occurrence of fictitious orders. Measures to enhance compliance awareness were repeatedly implemented following the 2022 case and its recurrence prevention efforts, leading to progress in improving the corporate culture and environment. However, the issue of low compliance awareness rooted in the corporate culture, particularly within part of the ground improvement business, remained unresolved.

④The Role of Subcontractors

One contributing factor was that subcontractors, including X Company, complied with requests for cost transfers between projects or cost item transfers within the same project without refusing them, viewing it as part of their on-site cooperation. It is also inferred that another cause was the failure to implement measures, such as clearly instructing subcontractors not to comply with inappropriate requests, even after the 2022 case.

⑤Issues with Single-Person Site Manager Approval

It cannot be denied that the workflow allowing certain orders to be approved solely by the construction site manager effectively weakens supervisory oversight by base management and internal control checks. This is considered one cause of the incident.

⑥Issues with the compliance framework

The internal audit focus had barely touched upon the approval process at the single-director workshop. With the audit department staffed by only three people—two employees and one senior staff member—it seems difficult to conduct a thorough internal audit.

Additionally, insufficient efforts to ensure awareness and effectiveness of the whistleblower system were also cited as contributing factors.

3 Our Company's Recurrence Prevention Measures Based on the Findings of the Internal Investigation Committee

Based on the findings of the internal investigation committee, the company formulated a detailed implementation plan for recurrence prevention measures and announced it on May 9, 2025. The outline is as follows.

① Reforming Corporate Culture and Environment

Declaration by the President and Business Division Heads regarding understanding of this incident and commitment to zero tolerance for misconduct; prevention of organizational stagnation and promotion of dynamism; implementation of education and training; instilling corporate and professional ethics; and fostering an open organizational culture.

②Strengthening the Operational Control Environment

Standardizing rules for preserving delivery notes and strengthening controls through checks between invoices and delivery notes; establishing rules for sampling checks on transaction validity; reviewing the authority, exercise, and check systems of department/section managers in processes such as purchasing, invoice processing, and cost management.

③Strengthening the Check System through Internal Audits

Strengthening monitoring by the sole branch manager, continuous improvement of audit capabilities and skills among audit department staff, etc.

④Thorough Dissemination of the Whistleblowing System

Regular communication by top management on the significance, safety, reliability, and usage of the whistleblowing system, along with continuous awareness campaigns.

⑤Training and Education

Conducting training for construction department employees based on specific cases addressing misconduct like the subject matter of this case, implementing training to ensure proper procedures are followed, etc.

⑥Dealing with Subcontractors

Requests to subcontractors to refuse inappropriate demands from our employees, encouragement to actively use the internal reporting system, implementation of training related to this case and the use of the internal reporting system, and requests for proper business dealings in general

Section 2 The Committee's Concerns

1 Basic Policy for This Committee's Investigation

In light of points raised by our shareholders and various opinions from institutional investors, this Committee determined that, to achieve the investigation's objectives, it would review the scope, methods, and findings of the Internal Investigation Committee's inquiry. Should it deem necessary to achieve the above objectives, the Committee would conduct additional investigations.

Specifically, based on the Internal Investigation Committee Report and the investigation materials taken over by this Committee, organize any points of doubt, and consider whether any necessary additional investigations are required.

That is, regarding the facts subject to investigation, we will examine whether further consideration is needed concerning the scope of individuals subject to DF ( ) investigations and interviews to clarify the causes of the inappropriate conduct, and whether the scope should be expanded. Furthermore, if any facts were excluded from the investigation scope during the internal investigation process, we will examine whether this was due to insufficient evidence to substantiate the findings or because evidence existed but the conduct was not deemed inappropriate. We will also strive to clarify the details of any findings in the investigation report that were not sufficiently explained. Furthermore, regarding cases newly discovered during this committee's investigation that are suspected of constituting misconduct, we will conduct thorough investigations to determine whether they qualify as misconduct. If they are determined to be misconduct, we will explore their causes in conjunction with the misconduct already clarified in the internal investigation.

Through these methods, we aimed to uncover misconduct to the greatest extent possible, delve deeply into the causes of such misconduct, evaluate the appropriateness and sufficiency of the recurrence prevention measures formulated and implemented by the Company following the 2022 internal investigation and the Internal Investigation Committee Report, and propose additional improvement measures.

Furthermore, additional investigations were conducted from the following perspectives, which, as described later, led to the discovery of numerous cases suspected of involving misconduct.

2 This Committee's Concerns Regarding the Internal Investigation Committee Report

This Committee reviewed the investigation materials (including interview memos and committee meeting minutes) and the responses to written questions submitted to the Internal Investigation Committee. However, it concluded that the following points remain contentious.

(1) Verification of the Comprehensiveness of Improper Conduct by Individual Perpetrators

The Internal Investigation Committee's report identified Mr./Ms. A, who was the Ground Engineering Department Manager at our Tokyo Head Office, and Mr./Ms. B, who belonged to the Construction Section of the Construction Department within the Ground Engineering Division, as well as nine other employees belonging to the same section and one employee from the Ground Engineering Sales Department at the Tokyo Head Office, as having engaged in improper conduct with Company X. However, only one of these nine individuals was subject to a DF investigation; the remaining eight were not investigated. Although these eight submitted voluntary disclosure sheets, these sheets rely solely on the individual's memory and may contain omissions. Furthermore, no DF investigations were conducted regarding the perpetrators of improper conduct involving other cooperating contractors. Therefore, this Committee determined that to infer the absence of similar transactions beyond these cases, it is necessary to verify emails and other objective evidence through DF investigations.

(2) The Need to Understand the Geographical "Spread" of Improper Conduct

This Committee examined whether the internal investigation committee's inquiry into the geographical spread of the improper transactions was sufficient.

Regarding the two cost transfer cases at the Tohoku Branch identified in the internal questionnaire survey acknowledged in the Internal Investigation Committee Report (both cases predating 2022 and thus outside the Internal Investigation Committee's investigation period), the name of the construction site manager who actually caused expenses to be billed as costs for other sites was not disclosed for one case. Furthermore, although the individual stated they acted upon instructions from the Tohoku Branch Ground Engineering Division regarding this case, the report did not specify who in the Tohoku Branch Ground Engineering Division gave the instructions [13]. Additionally, the Internal Investigation Committee stated that only this one cost transfer case was reported for the Tohoku Branch. There is no record of how they investigated whether similar cases existed at the Tohoku Branch, nor is there any mention of other business units.

[13] Internal Investigation Committee Report, Published Version, pp. 38–39.

While the relevant departments and branches stated that "no similar or analogous improper transaction practices were identified"[14], the verification method was unclear. This conclusion appears to have been based in part on the fact that no such practices were discovered in the 2022 internal investigation. However, this does not establish a presumption that no improper transaction practices occurred after fiscal year 2022. Furthermore, inquiries to the Internal Investigation Committee revealed that the basis for this conclusion was not clearly defined. On the other hand, the Internal Investigation Committee has established the fact that fictitious expense claims and cost transfers between projects were widely practiced for a long time[15]. Therefore, in order for this committee to confirm and determine that, at least for the Tohoku Branch, only this one case prior to the 2022 matter occurred, it is considered that a more detailed investigation is necessary, taking into account the reality that inappropriate conduct has been widespread for a long time. Furthermore, it was determined that confirmation using DF investigations is also necessary for other branches.

From this perspective, the Committee reviewed the scope of the DF investigation. Specifically, since the Internal Investigation Committee had identified improper conduct involving partner companies, the Committee focused on emails exchanged between the domains of partner companies deemed important by the Committee and all officers and employees of the Company. This investigation sought to determine whether emails suggesting improper conduct existed. Details are as described in the attached "Overview of the Digital Forensics Investigation."

(3) The Need to Understand the Pathways and Motives for the Human "Spread" of Improper Conduct

The Internal Investigation Committee's report did not establish the motives or circumstances behind why individuals involved in "other inappropriate transactions with other contractors" engaged in such conduct[16]. This Committee determined that clarifying several points—namely, whether each perpetrator learned the methods from someone else, acted under someone's instructions, received instructions or tacit approval from superiors, and what underlying circumstances existed—is essential for determining the causes of the improper conduct and establishing countermeasures. Therefore, a more detailed investigation is indispensable.

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[14] Internal Investigation Committee Report (Public Version), Page 44

[15] Page 47 of the Internal Investigation Committee Report (Published Version) states: "According to the results of interviews and other findings, particularly at sites under the jurisdiction of the Tokyo Ground Improvement Department, it has long been common practice to submit invoices under cost items that do not accurately reflect actual expenses in order to reduce the workload at the site. Particularly at sites under the jurisdiction of the Tokyo Ground Improvement Department, practices such as billing under cost items different from actual expenses to reduce on-site labor, and creating fictitious orders to transfer costs between projects when profit fluctuations between consecutive projects were significant for adjustment purposes, had been occurring for a long time. There appears to be an aspect where these practices have not been clearly denied."

[16] The Internal Investigation Committee Report further noted, following the point raised in the preceding note, "Moreover, it seems undeniable that such practices were accepted by cooperative contractors with whom long-standing business relationships existed, and that such methods were passed down from senior construction site managers to their juniors." It thus acknowledged the spread of these practices from seniors to juniors. Regarding the motives and causes, concerning entertainment expenses," it was observed that Construction Department executives and others used such funds as a matter of course without obtaining the construction site manager's approval, and that the construction site managers themselves tolerated this." This suggests that "there was an aspect where the construction site managers lacked strictness in budget execution and expense disbursement," and that it may have dulled compliance awareness and reduced resistance to inappropriate conduct. However, the explanation that the construction site managers' lack of strictness stemmed solely from the inappropriate use of entertainment expenses by construction executives and the site managers' tolerance of it seems somewhat forced. Rather, deeper investigation is needed into how such inappropriate behavior by executives influenced the site managers' motivation to engage in improper conduct.

Particularly regarding the corporate culture mentioned in the Internal Investigation Committee's report, while the Committee pointed out the inappropriate use of entertainment expenses by "construction executives," our investigation uncovered the possibility that inappropriate use of entertainment expenses by higher-level executives was widespread. Therefore, we determined this issue was relevant to the corporate culture and root cause analysis underlying this case and decided to investigate it further. Furthermore, to clarify the motives, we determined it necessary to conduct detailed interviews with employees (including former employees) involved in the inappropriate conduct.

Furthermore, it was necessary to investigate when the improper conduct, which the internal investigation committee indicated had existed for a long time, began and whether countermeasures had been taken against it. To this end, it was determined that a company-wide survey using an anonymous questionnaire focused on these points would be appropriate.

(4) The Need for Governance-Related Investigations

While the Internal Investigation Committee's report examined the workflow for site approvals by construction site managers, the effectiveness of internal audits, and the internal whistleblowing system from the perspective of internal controls related to financial reporting, it did not sufficiently investigate (including but not limited to interviews) whether internal controls and governance mechanisms designed to prevent improper conduct in general were functioning effectively.

Particularly concerning the events where accounting fraud became an issue, it is appropriate to examine how the Audit and Supervisory Committee responded [17]. However, no hearings were conducted. Furthermore, the responses of Board members responsible for establishing internal controls, especially outside directors who are not members of the Audit and Supervisory Committee, should have been examined but were not. Therefore, this Committee determined that an investigation into governance matters is necessary.

[17] Regarding the fact that Mr. Kuroda, an outside director serving as an Audit and Supervisory Committee member, was a member of the internal investigation committee in this case involving problematic accounting practices, there are likely varying assessments as to whether this was appropriate from the perspective of the Company Act's principle that companies with Audit and Supervisory Committees should conduct audits utilizing an internal control department, as well as the Japan Federation of Bar Associations (JFBA) Guidelines. However, even setting that aside, the internal investigation committee pointed out that the audit department's inadequate staffing made it difficult to complete a sufficient internal audit, identifying this as a cause of the lack of checks, and also noted that the whistleblowing system lacked effectiveness (Internal Investigation Committee Report, p. 51). Therefore, this Committee believes it is only natural that the actions of the directors and the Board of Directors, who bear responsibility for establishing and operating internal controls, should be investigated as a governance issue.

Chapter 4 Facts Revealed by This Committee's Investigation

Section 1 Findings of This Committee Regarding Improper Conduct

1 Summary of Additional and Newly Discovered Improper Conduct by This Committee's Investigation

(1) Regarding individuals Found to Have Engaged in Improper Conduct

A Regarding Individuals Whose Improper Conduct Was Determined by the Internal Investigation Committee

First, regarding individuals whose misconduct was confirmed by the Internal Investigation Committee, new instances of misconduct not previously identified by the Committee have been discovered for some individuals, and the extent of such misconduct within the company has become apparent.

B Individuals newly identified as having committed misconduct

Furthermore, new instances of misconduct were discovered involving individuals not previously identified by the Internal Investigation Committee as perpetrators of misconduct, as detailed below.

The categories of misconduct in this report, except for the new category "improper use of entertainment expenses" not previously identified by the Internal Investigation Committee, are defined and organized as described in the Internal Investigation Committee Report, as outlined above (Chapter 3, Section 1(2)), for "expense category misclassification," "cost misclassification," "acceptance of money or valuables," and "pooled funds." Furthermore, individuals involved in improper conduct due to violations of compliance regulations are described in Section 1.8 of this chapter.

The Internal Investigation Committee identified two models for expense category transfers and cost transfers: the pool fund model and the transfer model. However, this Committee's investigation found that pool funds were often created without a specific purpose defined at the time of creation, and their actual use for expense category transfers, cost transfers, receiving money or valuables, etc., was determined later as needed, such as expense category transfers, cost transfers, or receiving money or valuables. Furthermore, cases were identified where the pool funds were not specifically utilized. Therefore, the creation of pool funds itself is included as a type of improper conduct in the classification. Additionally, for cost transfers and expense category transfers, the classification into pool fund model and transfer model is not applied.

(a) Two officers (Executive Officers or above; the same applies below)

It was discovered that two officers were involved in the improper use of entertainment expenses, a new type of misconduct not previously identified by the internal investigation committee (both had been involved in improper conduct since their time as managers and continued after becoming executive officers).

(b) Managers

Five managers (four of whom were managers at the time of the misconduct, and one of whom was a general employee at the time) were found to have been involved in the improper use of entertainment expenses, expense category transfers, cost transfers, pool fund creation, and the receipt of money or valuables. Furthermore, the involvement of many other managers was also confirmed regarding the improper use of entertainment expenses.

(c) Regular Staff

Eleven general staff members were found to have been involved in reclassifying expense categories, reallocating costs, creating slush funds, and other improper activities.

The types of improper conduct committed by each perpetrator are as shown in the following table.

※ Type of Misconduct

A: Improper use of entertainment expenses
B: Creation of slush funds
C: Expense category transfer
D: Cost transfer
E: Acceptance of money or valuables

No.	Name	Current Affiliation/Position (Position at time of misconduct)	Type of Improper Conduct
1	Mr. /Ms. AM	Managing Executive Officer Head of Ground Engineering Business Division (Deputy Head of Tokyo Head Office, Deputy Head of Ground Engineering Division)	A
2	Mr. /Ms. AL	Executive Officer Deputy Head of Ground Engineering Division (Sales) and Head of Sales Department (Deputy Head of Tokyo Head Office)	A
3	Mr. /Ms. R	Kyushu Branch Ground Engineering Department Manager (Section Chief in charge of Kyushu Branch Groundwork Department and current position)	B, C, E
4	Mr. /Ms. T	Hokuriku Branch Groundwork Department Manager (Kitakanto Branch Construction Department Section Chief)	B, C, D
5	Mr. /Ms. S	Tohoku Branch Groundwork Department Manager (Construction Department, Construction Section, Ground Engineering Division; Head of Department in charge of North Kanto Branch and Current Position)	B, D
6	Mr. /Ms. U	Director, Machinery Department (Tokyo Machinery Center), Ground Engineering Division (Soil Technica Division Tokyo Machinery Center Maintenance Section Manager)	D
7	Mr. /Ms. AE	Ground Engineering Division, Construction Department, Construction Section (same)	B, C, D
8	Mr. /Ms. AH	Ground Engineering Division, Construction Department, Construction Section (same)	B, D
9	Mr. /Ms. AB	Ground Engineering Division, Construction Department, Construction Section (same)	C (including attempted)
10	Mr. /Ms. AA	Ground Engineering Division, International Department, Construction Section (same)	D
11	Mr. /Ms. AC	Ground Engineering Division, Construction Department, Construction Section (same)	C

12	Mr. /Ms. AG	Kitakanto Branch Safety Section Manager (Ground Engineering Division, Construction Department, Construction Section)	B, D
13	Mr. /Ms. AD	Ground Engineering Division, Construction Department, Construction Section (same)	C, E
14	Mr. /Ms. AI	Ground Engineering Division, Construction Department, Construction Section (same)	C, E
15	Mr. /Ms. AF	Ground Engineering Division, Construction Department, Construction Section (same)	C, E
16	Mr. /Ms. AJ	Tohoku Branch, Ground Engineering Sales Department, Sales Section (Hokkaido Branch Ground Construction Section Manager)	D
17	Mr. /Ms. AN	Ground Engineering Division, Construction Department, Construction Section (same)	D
18	Mr. /Ms. AO	Ground Engineering Division, Construction Department, Manager (Chubu Branch, Osaka Branch, Kyushu Branch) (Same)	D

(2) Regarding New Methods and Types of Misconduct

The Internal Investigation Committee identified, in addition to the actions of Mr. /Ms. A, who was the Construction Department Manager, the following types of inappropriate conduct: cost reallocation by branch managers, pool funds for subcontractors, embezzlement of pool funds, and expense category reallocation. Among the new methods and patterns discovered by this Committee, the qualitatively significant ones are as follows.

A Cost Reallocation Directed by the Construction Department Section Chief

It was discovered that the Construction Department Manager and Section Chief, in consultation with site managers, subcontractors, or related departments, adjusted and transferred costs across sites to level gross profit margins.

The Internal Investigation Committee confirmed one instance of this type of activity by Mr. /Ms. A, who was the Construction Department Manager for the Tokyo Head Office Groundwork Division. However, multiple additional instances of similar activity by Mr. /Ms. A were discovered, and further instances were confirmed at other branches, revealing that cost reallocation had become routine.

The costs confirmed as targets for reallocation include repair costs, subcontracting fees, fuel costs, survey expenses, outfitting costs [18], and management labor costs [19].

B Cost Transfer and Pooling of Repair Costs Involving Tokyo Machinery Center

As one type of the above A, a method involving Tokyo Machinery Center (the entire organization belonged to Soil Technica until March 2023 and has belonged to our company since April of the same year) was used to allocate repair costs and pool funds and pooling of funds was identified (Note: This Committee has not identified any improper conduct by Tokyo Machinery Center since it became affiliated with our company in April 2023).

The site managers of our company or Soil Technica borrow machinery from either the Tokyo Machinery Center or the Osaka Machinery Center to carry out construction work at various sites. However, when breakdowns or other issues occur requiring repairs,

[18] Work to install equipment, etc., on work boats used in construction.

[19] Costs related to construction site management. Site management fees.

the lending machinery center would bill for repair costs. Since both machinery centers belonged to Soil Technica until March 2023, for sites of projects contracted by Soil Technica, this was merely recorded as such on the vouchers. However, for immovable tetrapod sites, actual billing occurred.

Therefore, to level out the gross profit margins across sites, Tokyo Machinery Center performed adjustments: repair costs incurred at sites with low profits were allocated to sites generating profits, and repair costs from profitable sites were "pooled" at the machinery center to be expensed later as repair costs for other sites. Additionally, instances were discovered where Tokyo Machinery Center did not issue invoices at all, and these costs were subsequently not billed to other sites. These adjustments to level gross profit margins were carried out by the Construction Department Manager, who would ascertain the gross profit margin status of each site through discussions with the respective site managers and then request adjustments from Tokyo Machinery Center.

C. Improper Use of Entertainment Expenses

Regarding entertainment expenses, the internal investigation committee determined that "in the past, at some locations, Construction Department executives and others routinely used such expenses without obtaining the construction site manager's approval, and the site managers tolerated this (omitted)... This indicates a situation and mindset where strictness regarding budget execution and expense disbursement was somewhat lacking."

The committee's investigation confirmed that within the Ground Improvement Business Division, it had become routine practice to use site entertainment expenses (classified as construction costs) unrelated to the specific internal social event (such as dinners or golf outings) and entertainment expenses categorized as general administrative expenses when conducting such internal gatherings. Regarding general administrative expenses, branch construction/sales department sections and their superiors would fabricate fictitious external entertainment expenses when submitting applications. Some of these inappropriate entertainment expense uses involved Ground Engineering Division executive officers and managers, and continued even after the 2022 incident was uncovered.

2. Newly Identified Improper Practices and Their Spread Involving Pool Funds for Subcontractors, Cost Transfers, and Expense Category Transfers

The Committee's investigation revealed new facts regarding the following improper acts and their internal spread concerning the improper practices involving pool funds for subcontractors, cost transfers between projects, and expense category transfers within the same project.

(1) Regarding Individuals Identified by the Internal Investigation Committee as Having Engaged in Improper Conduct

A Mr. /Ms. A

(a) Summary of the Internal Investigation Committee Report

i Methods of Improper Conduct by Mr. /Ms. A (Improper Conduct with Company X)

(i) Receipt of Cash, etc. Through Fictitious/Excessive Invoicing and Purchase of Receipts

Beginning in September 2017, Mr. /Ms. A had Company X submit fictitious invoices to our company for payment.

Mr./Ms. A then received a portion of the fictitious payment amounts paid by our company from Company X in the form of gift certificates. Mr./Ms. A cashed these gift certificates at so-called voucher shops near our Tokyo Head Office or Tokyo Port General Office, converting them into cash.

(ii) Cost Transfer to Other Sites

In August 2019, Mr./Ms. A instructed Mr./Ms. B of the Construction Department, Construction Section, Ground Engineering Division Headquarters to bill ¥350,000 (excluding tax) in machinery damage fees incurred by Z8 Company to another site managed by Mr. B as its manager.

Furthermore, in April 2020, Mr./Ms. A instructed Mr./Ms. B to bill ¥4,000,000 (excluding tax) incurred by Z9 Company as expenses for another site managed by Mr./Ms. B.

ii Amount of Improper Conduct by Mr./Ms. A

During the investigation period, the total amount of fictitious orders Mr./Ms. A had billed to Company X was ¥13,393,880 (excluding tax). Of this amount, the total value of gift certificates received by Mr./Ms. A from X Company during the period under investigation was 6,400,000 yen.

Mr./Ms. A cashed these received gift certificates and used the proceeds for company golf tournament fees, golf tournament social gathering expenses, entertainment meals, his/her own food expenses during on-site support or stays at construction offices, etc.

iii Circumstances Leading to Mr./Ms. A's Improper Conduct

Mr./Ms. A had been continuously making payments for the above fictitious orders and receiving gift certificates since around September 2017. Regarding the circumstances leading to these actions, Mr./Ms. A stated as follows.

Specifically, starting around 2016 when Mr./Ms. A was the Construction Manager at the Tokyo Head Office Ground Engineering Division Construction Department, Mr./Ms. A began using his/her personal credit card to pay for meals at secondary or tertiary gatherings following company social events, particularly for the second or third rounds of drinking parties following gatherings involving department managers and the Ground Engineering Division. Mr./Ms. A paid for these meals using his/her personal credit card and did not subsequently settle these expenses as entertainment costs among attendees or within the company. As a result, Mr./Ms. A often ended up bearing the cost himself/herself. To prepare for such payments, Mr./Ms. A wanted to keep cash on hand that Mr./Ms. A could use freely. Regarding this point, according to Mr./Ms. A, in the past, expenses for such gatherings were settled using the site's entertainment expense budget, even when the site construction manager was not present. However, Mr./Ms. A had not been pleased with this use of entertainment expenses when Mr./Ms. A himself/herself was a construction manager. Therefore, after becoming a section chief, Mr./Ms. A did not settle such expenses as site entertainment expenses, choosing instead to bear the costs himself/herself, so as not to make the construction manager feel the same way.

(b) Additional Findings of Fact by This Committee

i Newly Established Facts

As the Construction Department Manager at the Tokyo Head Office Groundwork Division (April 2021–), Mr./Ms. A adjusted and transferred costs and expenses across sites in consultation with site managers and the Machinery Center to level gross profit margins.

In each case, inappropriate actions such as cost transfers and pool fund preparations were carried out with the involvement of the Tokyo Machinery Center. The details are as described in Section 3 below.

ii Circumstances and Motives Leading to Improper Conduct

(i) Regarding the Improper Conduct Acknowledged in the Internal Investigation Committee Report

According to the Internal Investigation Committee Report, "Mr./Ms. A stated that in the past, expenses for such social gatherings were settled using the site's entertainment expense budget, even when the site construction manager did not attend. However, Mr./Ms. A had not been pleased with such use of entertainment expenses when Mr./Ms. A himself/herself was a construction manager. Therefore, after becoming a section chief, Mr./Ms. A did not settle such expenses as site entertainment expenses and instead bore the costs himself/herself, so that construction managers would not experience the same dissatisfaction."

Regarding the meaning of "did not approve of such use of the entertainment budget," Mr./Ms. A stated that while Mr./Ms. A himself/herself had previously considered holding appreciation parties during his/her time working on-site, Mr./Ms. A repeatedly encountered situations where the site's entertainment budget had already been used up, leaving no available funds. Mr./Ms. A explained that Mr./Ms. A believed the site's entertainment budget should be used meaningfully for the construction personnel working hard on-site, which is why Mr./Ms. A refrained from using it.

Mr./Ms. A further stated that the cash proceeds from cashing gift certificates obtained through fictitious orders included funding for regular internal social gatherings. These gatherings were organized by executives from the Ground Improvement Division who had served as coordinators since the past, and were attended by senior managers above the branch manager level and section chiefs/department managers involved in the same ground improvement projects. This point is detailed in Section 4(3) below.

(ii) Regarding Improper Conduct Involving the Machinery Center

Mr./Ms. A engaged in improper conduct involving cost transfers between projects and pool fund preparations through the involvement of the Tokyo Machinery Center. The background and motives for this are as described in Section 3 below.

(c) Spread within the Company

Mr./Ms. A, in his/her capacity as department head, conducted cost transfers to other sites after coordinating with the construction site managers responsible for billing at multiple construction sites under the jurisdiction of the Tokyo Head Office Ground Improvement Department.

Furthermore, Mr./Ms. A similarly instructed construction site managers at multiple sites under the jurisdiction of the Tokyo Head Office Groundwork Department, which Mr./Ms. A oversaw as department head, to add fictitious items and their amounts to invoices from X Company, thereby submitting invoices for fictitious order amounts. Mr./Ms. A communicated to the construction site managers to whom Mr./Ms. A submitted invoices that they should add fictitious items and their amounts to the invoices and submit invoices for fictitious order amounts.

B Mr./Ms. C

(a) Summary of the Internal Investigation Committee Report

i Improper Conduct with X Company

(i) Creation of a slush fund through fictitious and inflated billing, receipt of cash, and purchase of receipts

Mr./Ms. C of the Construction Section, Construction Department, Ground Engineering Division, Mr./Ms. C caused X Company to submit fictitious invoices to our company or Soil Technica, resulting in payments totaling ¥3,558,400 (excluding tax) from our company or Soil Technica to X Company. Mr./Ms. C then pooled these funds and received a total of ¥1,833,629 in cash from X Company by requesting the purchase of receipts. According to Mr./Ms. C, his/her pool fund balance with X Company as of the end of December 2024 was ¥23,758 (①)

(ii) Cost Transfer Between Projects

In January 2024, Mr./Ms. C used the pool fund to purchase construction materials and equipment for his/her own separate construction site, transferring ¥123,154 in costs (②)

(iii) Cost Reallocation Within the Same Project

From September 2020 to July 2023, Mr./Ms. C had Soil Technica issue invoices under different names than the items actually delivered by X Company (such as can warmers), resulting in a total cost reallocation of ¥630,400 (excluding tax) (③)

(iv) Regarding the motive

Regarding these actions, Mr./Ms. C stated that distributing beer to field workers is customary in marine construction projects. Since beer cannot be reimbursed as an expense by our company or Soil Technica, Mr./Ms. C personally purchased beer and had X Company purchase the receipts. Mr./Ms. C believed this practice was an unspoken rule in marine construction. Regarding the order amount per transaction, Mr./Ms. C acknowledged that amounts under ¥500,000 did not require approval by the base manager or purchasing department, and stated Mr./Ms. C adjusted the amounts to stay below ¥500,000.

ii Z3 Company's Improper Conduct

(i) Creation of Pool Funds through Fictitious/Excessive Invoicing, Receipt of Cash, and Purchase of Receipts

From July 2024 to October 2024, Mr./Ms. C had Z3 Company submit fictitious invoices to our company, causing our company to pay Z3 Company a total of ¥484,620 (excluding tax) as pool funds. Simultaneously, Mr./Ms. C received goods (such as beer) worth ¥389,760 from Z3 Company. According to Mr./Ms. C, as of the end of December 2024, the balance of pooled funds owed to Z3 Company was ¥94,860 (④)

(ii) Reallocation of Expense Items Within the Same Project

Additionally, in August 2024, Mr./Ms. C instructed Z3 Company to bill our company under a different item name than the actual goods (aluminum ladders) delivered to us, resulting in a total cost reclassification of ¥640,000 (excluding tax) (⑤)

(b) Additional Findings by the Committee

i Other Improper Conduct

No additional improper conduct by Mr./Ms. C beyond what was documented in the internal investigation committee report has been newly established. However, regarding Mr./Ms. C, suspicions of improper conduct involving pool fund preparation through the involvement of Tokyo Machinery Center (specifically, suspicions that Mr./Ms. C, in February 2021, created a pool fund to use in the "●● Construction Project" Mr./Ms. C managed as director, because Mr./Ms. C did not use the 25,000,000 yen (excluding tax) budgeted for machinery damage fees) were recognized. and subsequently contacting Mr./Ms. U of Tokyo Machinery Center to create a pool fund for use in the "●● Construction Project" managed by Mr./Ms. D as project manager) were identified. This committee conducted an investigation through interviews with relevant parties and a thorough review of provided materials. However, it could not confirm any actual creation or use of such a pool fund.

ii Circumstances and Motives Leading to the Improper Conduct

(i) Regarding points ①and ③above

Mr./Ms. C stated that Mr./Ms. C learned the methods for creating the pool fund and reclassifying expense items around November 2019 from the construction site manager who was jointly in charge of the project. Specifically, since beer could not be reimbursed as an expense by our company or Soil Technica, Mr./Ms. Ce purchased beer himself/herself while① instructing X Company to submit fictitious invoices to our company or Soil Technica for payment, having our company or Soil Technica pay X Company that amount, pooling the funds, and then requesting X Company to purchase the receipts, thereby receiving cash. Mr./Ms. C also explained that Mr./Ms. C was taught method ③ instructing X Company to submit invoices to Soil Technica under names different from the actual delivered goods, thereby performing cost category transfers.

Mr./Ms. C further stated that similar methods for fictitious orders and expense category transfers were used in other construction projects thereafter (X Company, headquartered in Kanagawa Prefecture, transported beer to the Tokyo construction site, enabling the use of method ③; conversely, method ①was used for construction sites outside Tokyo).

(ii) Regarding the above point ②

Mr./Ms. C stated that cost reallocation began around September 2020.In 2020, X Company was involved in multiple projects with our company. At that time, X Company made an error in its billing process. An invoice that should have been billed to the project managed by Mr./Ms. D (also managed by Mr./Ms. G) was instead billed to the project managed by Mr./Ms. C (also managed by Mr./Ms. AF).Instead of correcting this billing error, after consulting with Mr./Ms. D and Mr./Ms. G, it was decided to use the aforementioned pooled funds. Through Mr./Ms. AF, these funds were applied to purchase construction materials and equipment for use at another construction site managed by Mr./Ms. D (a site under Mr./Ms. D's responsibility), thereby transferring costs. A similar act was also performed in January 2024.

(iii) Regarding points ④and ⑤above

At the time, Mr./Ms. C was in charge of construction in Hokkaido. Mr./Ms. C requested X Company to purchase receipts as described above. Since Mr./Ms. C was told that the Hokkaido site could not handle it, Mr./Ms. C consulted with Z3 Company and carried out fictitious orders and cost item transfers using the same method as X Company. Mr./Ms. C stated that the cause of this matter was

an old, bad habit. Although Mr./Ms. C had no physical evidence, Mr./Ms. C stated that since Mr./Ms. C was able to have expense category transfers performed when Mr./Ms. C requested them from Z3 Company in Hokkaido, Mr./Ms. C understood that expense category transfers were being conducted not only in Tokyo but nationwide.

(c) Spread within the Company

As described in (a) above, the methods in ①and ③were learned around November 2019 from the construction site manager who was jointly responsible for the project.

Regarding cost reallocation (②), he discussed it via email with Mr./Ms. D and Mr./Ms. G and had his/her own site supervisor, Mr./Ms. AF, handle the processing. In this context, emails from X Company personnel to Mr./Ms. C (CC: Mr./Ms. G) were forwarded by Mr./Ms. C to Mr./Ms. AF, indicating that cost reallocation was implemented after being shared among internal members. Furthermore, Mr./Ms. C himself/herself stated that it is highly likely Mr./Ms. C taught Mr./Ms. AF the same method.

C Mr./Ms. D

(A) Summary of the Internal Investigation Committee Report

i Improper Conduct with X Company

(i) Receipt of Cash, etc. via Fictitious/Excessive Invoices and Purchase of Receipts

Mr./Ms. D of the Construction Section, Construction Department, Ground Engineering Division, caused X Company to submit fictitious invoices to our company between November 2023 and November 2024. Mr./Ms. D caused our company to pay X Company a total of ¥781,900 (excluding tax). In return, Mr./Ms. D received gift cards worth a total of ¥260,000,¥23,000 in cash, and goods worth ¥54,000 (three transceivers) worth ¥540 (①).

(ii) Reallocation of Expense Items Within the Same Project

In September 2023, Mr./Ms. D had Company X issue an invoice to our company under a different name than the actual goods delivered (beer), performing a cost item transfer totaling ¥77,000 (excluding tax) (②).

Regarding these actions, Mr./Ms. D stated that Mr./Ms. D received the gift cards from X Company because the entertainment expense budget became insufficient when distributing them to related parties. Mr./Ms. D also stated that Mr./Ms. D settled the purchase price through expense reclassification for the beer because Mr./Ms. D felt it would be inappropriate to process it as an expense.

ii Improper Conduct with Z2 Company

(i) Receipt of Cash and Purchase of Receipts via Fictitious/Excessive Invoicing

In June 2024, when purchasing a ¥69,000 dashcam from Z2 Company, Mr./Ms. D had Z2 Company bill our company for the same amount under a different item. Mr./Ms. D then had our company pay Z2 Company ¥69,000 (excluding tax) to Z2 Company while receiving the dashcam from Z2 Company (③).

(ii) Cost Transfer Between Projects

In February 2024, Mr./Ms. N of the Construction Department, Ground Improvement Division, at the suggestion of Mr./Ms. D of the same department, had Z12 bill ¥245,000 (excluding tax) of the monthly fee for the rough-terrain crane used in ground improvement work as expenses for an adjacent site where Mr./Ms. D served as site manager (④).

(b) Additional Findings by the Committee

i Other Improper Conduct

No additional inappropriate conduct by Mr./Ms. D beyond what was documented in the Internal Investigation Committee Report has been newly determined.

ii Circumstances and Motives Leading to Improper Conduct

(i) Regarding the above point ①

Prior to the COVID-19 pandemic, Mr./Ms. D had entertained employees of the prime contractor at restaurants and other venues to foster relationships. However, due to the pandemic, such entertainment became impossible. Consequently, Mr./Ms. D began providing gift cards to the responsible personnel at the prime contractor company. Initially, he purchased these gift cards legitimately within the entertainment expense budget. However, when Mr./Ms. D was serving as the construction site manager, Mr./Ms. D received instructions from the sales department to avoid using any remaining entertainment expenses. At that time, Mr./Ms. D devised and implemented a method whereby Mr./Ms. D had X Company submit a fictitious order request to purchase gift cards, which Mr./Ms. D then received.

Mr./Ms. D stated that Mr./Ms. D had consulted with his/her then-supervisor, Mr./Ms. A, beforehand about purchasing gift cards through this fictitious order method and had obtained his approval.

Furthermore, Mr./Ms. D explained that Mr./Ms. D had learned the method of expense category transfers via X Company from senior construction site managers at least as early as 2011 [20], and that Mr./Ms. D himself /herself had "been performing expense category transfers without any particular malicious intent."

(ii) Regarding the above point ②

Mr./Ms. D stated that, although Mr./Ms. D does not recall the exact timing, Mr./Ms. D had been taught by senior managers, including the director, at least prior to 2011, a method of expense category transfer via X Company to settle expenses that were difficult to claim directly from the company. Mr./Ms. D also stated that his/her superior, Mr./Ms. A, had recommended using X Company.

Mr./Ms. D further stated that within the company, it had long been customary to purchase beer and then reclassify it under other expense categories rather than claiming it as a direct expense. Mr./Ms. D added that Mr./Ms. D himself/herself had engaged in this expense category reclassification without malicious intent, as Mr./Ms. D often lacked the time to leave the worksite to purchase beer. Mr./Ms. D also mentioned that currently, when claiming expenses, itemized receipts are required regardless of the amount. However, previously, for amounts under ¥8,000, itemized details were not required, and

[20] Mr./Ms. D could not clearly recall or identify which senior colleague had taught him/her this method.

Mr./Ms. D also explained that the practice of including beer and other items in this manner had been in place since before 2011. Mr./Ms. D mentioned that Mr./Ms. D had discussed the possibility of using a similar method with other construction site managers during conversations.

(iii) Regarding the above point ③

Mr./Ms. D stated that since Mr./Ms. D commuted using a company vehicle, parking fees would be incurred when returning home. Therefore, Mr./Ms. D decided to commute using his/her personal vehicle. As preparation for this, Mr./Ms. D intended to purchase a dashcam, which was a requirement for commuting with his/her personal vehicle. Mr./Ms. D requested Z2 Company to purchase it using the fictitious billing method. Mr./Ms. D explained that Mr./Ms. D did not intend to claim this as an expense. Instead, Mr./Ms. D had Z2 Company bill our company for the same amount under a different item, had our company pay Z2 Company, and then received the dashcam from Z2 Company.

(iv) Regarding the above point ④

Regarding the above point ④, Mr./Ms. D stated Mr./Ms. D does not recall the circumstances under which the cost transfer was performed.

(c) Spread within the company

As stated in (a) above, regarding point ①, Mr./Ms. D consulted with his/her then-supervisor, Mr./Ms. A, in advance regarding the purchase of gift cards and obtained his/her approval.

Regarding point ②above, at least prior to 2011, Mr./Ms. D had been taught by senior construction site managers and others the method of cost reallocation via X Company to settle expenses that were difficult to claim directly from the company.

Furthermore, it appears that Mr./Ms. D discussed cost reallocation via email with his/her juniors, Mr./Ms. C and Mr./Ms. G, and implemented it after sharing the practice with other members within the company.

D Mr./Ms. E

(a) Summary of the Internal Investigation Committee Report

Mr./Ms. E of the Construction Section, Construction Department, Ground Engineering Division, caused X Company to bill our company for fictitious orders between November 2023 and September 2024, resulting in our company paying X Company a total of ¥384,000 (excluding tax).Mr./Ms. E requested the purchase of receipts from X Company and received a total of ¥302,366 in cash.

Regarding these actions, Mr./Ms. E stated Mr./Ms. E did this to compensate for Mr./Ms. E's own share when there were receipts that could not be properly processed internally due to reasons such as incorrect payee names.

(b) Additional Findings by the Committee

i Other Improper Conduct

No new inappropriate acts by Mr./Ms. E were found beyond those stated in the internal investigation committee report.

ii Circumstances and Motives Leading to Improper Conduct

Regarding the circumstances and motives leading to the inappropriate conduct, Mr./Ms. E stated that, although the exact timing is unclear, Mr./Ms. E had observed or heard about other directors at the Tokyo Port General Office having receipts purchased by X Company around 3 to 4 years prior to committing the inappropriate conduct. Mr./Ms. E stated that around four years prior, Mr./Ms. E had seen and heard other directors at the Tokyo Port General Office having receipts purchased by X Company. While Mr./Ms. E did not receive specific instructions from anyone, Mr./Ms. E observed the practices of other directors. Consequently, when Mr./Ms. E had receipts that could not be properly processed internally, Mr./Ms. E approached X Company himself/herself to inquire if they could purchase the receipts to compensate for Mr./Ms. F's own out-of-pocket expenses, and thus began the practice.

iii Other factual circumstances indicating the existence of inappropriate conduct, though not specific enough to identify particular cases

Mr./Ms. E also stated that another common inappropriate practice at the site involved requesting beverages from a fuel supplier and then having them billed under a different expense category.

(c) Spread within the company

As described above, Mr./Ms. E heard that other branch managers at the Tokyo Port General Office had X Company purchase their receipts, leading him to engage in improper conduct himself/herself. Methods for improper dealings with X Company were shared among branch managers at the site. Mr./Ms. E also stated that reclassifying beverage expenses was common practice at the site.

Furthermore, Mr./Ms. E mentioned that the background to the improper conduct included instances where Mr./Ms. E was not permitted to use field entertainment expenses due to instructions from superiors, and other times where Mr./Ms. E discovered that a significant portion of the entertainment expenses had been used by the branch office.

E Mr./Ms. F

(a) Summary of the Internal Investigation Committee Report

Mr./Ms. F of the Construction Section, Construction Department, Ground Engineering Division, in November 2024, had X Company demand payment from our company for a fictitious order amount, causing our company to pay X Company ¥82,000 (excluding tax). Mr./Ms. F then attempted to have X Company purchase a receipt in order to receive cash. However, the 2024 case was discovered, preventing Mr./Ms. F from actually receiving the cash.

(b) Additional Findings by the Committee

i Other Improper Conduct

No new inappropriate conduct by Mr./Ms. F has been determined beyond what was documented in the Internal Investigation Committee Report.

ii Circumstances and Motives Leading to Improper Conduct

Mr./Ms. F had recently returned from an overseas project (Indonesia) and was assigned to a cold-weather site at the Hokuriku Branch, necessitating the procurement of cold-weather gear. Having worked for an extended period at a warm overseas site, the transfer to a colder domestic location led Mr./Ms. F to desire better-performing cold-weather gear than what was available for purchase through the company's internal website. However, Mr./Ms. F believed expense claims for cold-weather gear other than company-issued items would not be approved.

Mr./Ms. F desired better-performing gear than what was available for purchase via the company intranet. However, Mr./Ms. F believed expense claims for cold-weather gear beyond company-issued items would not be approved.

Therefore, Mr./Ms. F, having heard from Mr./Ms. B who was also at the Hokuriku site around the same time that X Company would deliver tools and other items needed for construction in Hokuriku if ordered by email

(Note: Mr./Ms. B did not inform Mr./Ms. F that X Company could facilitate improper procurement, such as purchasing receipts.) Consequently, Mr./Ms. F requested Mr./Ms. Y of X Company to procure the cold-weather gear.

Later, when Mr./Ms. F consulted Mr./Ms. Y of X Company around November or December 2024, it turned out that Mr./Ms. Y had just canceled an order for a mat balance (a device to measure cement density) that Mr./Ms. F had requested X Company to procure around the same time. Mr./Ms. Y proposed holding onto the canceled order and purchasing any other receipts Mr./Ms. F had. Consequently, Mr./Ms. F submitted receipts for winter gear Mr./Ms. F had purchased with his own funds.

Mr./Ms. F stated that at the time, Mr./Ms. F considered it a minor matter and did not recognize it as wrongdoing.

(c) Spread within the Company

Regarding Mr./Ms. F's inappropriate actions with X Company described above, there was no indication of sharing methods or collusion with other employees; it was an isolated incident. However, Mr./Ms. F himself/herself acknowledged that, in addition to this case, Mr./Ms. F had previously engaged in inappropriate actions involving procuring drinking water from Z1 Company and having it billed under a different expense category. Mr./Ms. F understood that such practices had been common within the company since before 2019.

F Mr./Ms. G

(a) Summary of the Internal Investigation Committee Report

Mr./Ms. G of the Construction Section, Construction Department, Ground Engineering Division, in December 2019, caused X Company to submit fictitious invoices to our company. During the investigation period, Mr./Ms. G caused our company to pay X Company a total of ¥129,792 (excluding tax). Meanwhile, Mr./Ms. G requested X Company to purchase receipts and received a total of ¥169,792 in cash.[21].

Furthermore, during the investigation period from November 2019 to July 2024, Mr./Ms. G had X Company submit invoices under different names than the actual goods (such as beer) delivered to our company or Soil Technica, resulting in a total of ¥1,762,729 (excluding tax) being reclassified under different expense items([22]) .

Regarding these actions, Mr./Ms. G stated that distributing beer to field workers is necessary for marine construction work, and that this practice is also carried out at other sites, as informed by field workers from subcontractors.

[21]The reason the cash received exceeded the amount of fictitious orders during the investigation period is that payments for fictitious orders were made to Company X prior to March 2019, outside the investigation period, and these funds were used as the source for purchasing receipts.

[22] Additionally, an expense reclassification of ¥83,454 (excluding tax) was confirmed in March 2019, outside the investigation period.

This was done because Mr./Ms. G was told to do so, and Mr./Ms. G believed that if entertainment expenses exceeded the limits set for each location, they could not be treated as expenses.

(b) Additional Findings by the Committee

i Other Improper Conduct

Regarding Mr./Ms. G, no new inappropriate acts were identified beyond those stated in the internal investigation committee report.

ii Circumstances and Motives Leading to Improper Conduct

Mr./Ms. G stated that Mr./Ms. G's motivation for beginning to purchase receipts stemmed from a past experience. Mr./Ms. G had attended a meal with a client as part of a client entertainment event alongside a salesperson. While Mr./Ms. G had applied for entertainment expense reimbursement for the first gathering, Mr./Ms. G had not applied for reimbursement for the second and third gatherings, paying out of Mr./Ms. G's own pocket. Disliking this situation, Mr./Ms. G consulted with X Company, which was the beginning.

Based on this personal experience, Mr./Ms. G stated that Mr./Ms. G taught Mr./Ms. AF, a junior colleague assigned to the site where Mr./Ms. G served as manager, about X Company's receipt purchase method as a way to avoid paying out of pocket when proper entertainment expense claims were not filed. Mr./Ms. G advised Mr./Ms. AF, "You should never pay for work-related expenses yourself; contact X Company."

(c) Spread within the Company

As described in (b) above, Mr./Ms. G included two clerks from the Tokyo Port General Office in the CC field of the email instructing X Company to change expense categories. This indicates that the inappropriate practice of changing expense categories was also shared with the Tokyo Port General Office.

Furthermore, as described in (b) above, Mr./Ms. G stated that Mr./Ms. G also taught Mr./Ms. AF, a junior colleague assigned to the site where Mr./Ms. G served as director, the method of having X Company purchase receipts as a way to avoid paying out of pocket when Mr./Ms. G had not submitted a proper entertainment expense claim.

G Mr./Ms. H

(a) Summary of the Internal Investigation Committee Report

Mr./Ms. H of the Construction Section, Construction Department, Groundwork Business Division, caused X Company to submit fictitious invoices to our company from December 2021 to October 2024, resulting in our company paying X Company a total of ¥614,131 (excluding tax). Simultaneously, Mr./Ms. H requested X Company to purchase receipts and received payment for the same amount.

Regarding these actions, Mr./Ms. H stated Mr./Ms. H did so because the receipt settlement procedures were cumbersome. Mr./Ms. H was aware that amounts under ¥500,000 could be approved at the worksite level without requiring checks by the base manager or the Purchasing Department, and Mr./Ms. H adjusted the amounts to stay below ¥500,000.

(b) Additional Findings by the Committee

i Other Improper Conduct

As described in Section 3 below, around February 2021, Mr./Ms. H received an email from Mr./Ms. Ainforming Mr./Ms. H that repair costs of ¥520,000, which should have been charged to the "●● Project"(Chiba Branch), had been charged instead to the "●● Project" (Chiba Branch) under Mr. H's jurisdiction. Mr./Ms. H tacitly approved this and participated in the cost transfer between projects.

ii Factual circumstances indicating the existence of inappropriate conduct, though not specific enough to identify individual cases

(i) Cost Item Transfer Within the Same Project ①

Mr./Ms. H stated that, in addition to purchasing receipts, Mr./Ms. H had also ordered alcohol from X Company and had it billed under a different expense category. Mr./Ms. H also mentioned that Mr./Ms. H might have instructed subordinates assigned to Mr./Ms. H's site as personnel in charge to order alcohol, but specific acts could not be identified.

(ii) Cost Item Reallocation Within the Same Project ②

On June 29, 2020, when emailing the provisional settlement NET for the ●● project (Chiba Branch) Mr./Ms. H was responsible for to Mr./Ms. A, Mr./Ms. H reported, "I deposited 200,000 yen with ZZ1 Company and paid ZZ2 Company's repair costs." This raised suspicion of expense category switching.

Regarding this point, Mr./Ms. H stated that ZZ1 Company is a survey company and that Mr./Ms. H believes the ¥200,000 survey fee was reclassified as repair costs within the same project, but Mr./Ms. H has no recollection whatsoever of the circumstances or details. Furthermore, no invoices or other documents remained besides the relevant email.

Therefore, while it is presumed that Mr./Ms. H reclassified the expense item within the same project, it could not be definitively confirmed.

iii Circumstances and Motivation Leading to Improper Conduct

Regarding the circumstances and motivation leading to the inappropriate conduct acknowledged in the internal investigation committee report, Mr./Ms. H stated that it began when President Y of X Company told Mr./Ms. H that if Mr./Ms. H had receipts from places like bars, they could be purchased. Mr./Ms. H also stated that Mr./Ms. H had X Company purchase receipts for personal daily necessities purchased at home improvement stores, etc., as well. Regarding the motivation for this, Mr./Ms. H explained that when purchasing tools, alcohol for gifts, and personal daily necessities together at home improvement stores, it was troublesome to allocate the expenses and settle them. Mr./Ms. H also mentioned that Mr./Ms. H was financially strained due to being on a business trip in a regional location while living alone.

Regarding the newly identified cost reallocations between projects, Mr./Ms. H stated that these were performed by the department manager after Mr./Ms. H submitted Mr./Ms. H's settlement NET report. The department manager likely made these adjustments because any deviation from the projected gross profit would require the department manager to explain the reasons to the company, placing the responsibility on them.

(c) Spread within the Company

Regarding the improper conduct with X Company mentioned above, Mr./Ms. H stated that it was initiated by President Y of X Company

Mr./Ms. H stated that while working at the Tokyo Port General Office, Mr./Ms. H had discussed with other construction site managers the possibility of X Company purchasing receipts, but Mr./Ms. H never learned this method from anyone else nor taught it to anyone else.

On the other hand, regarding the cost transfers between projects involving Mr./Ms. H, it is acknowledged that these were led by the Construction Department Section Chief, as described in (b) above.

H Mr./Ms. I

(a) Summary of the Internal Investigation Committee Report

Mr./Ms. I of the Construction Section, Construction Department, Ground Engineering Division, caused X Company to submit fictitious invoices to our company from March 2023 to September 2024, resulting in our company paying X Company a total of ¥136,460 (excluding tax). In return, Mr./Ms. I received beer vouchers worth a total of ¥65,600 from X Company.

Furthermore, from October 2023 to July 2024, Mr./Ms. I had X Company submit invoices to our company under different names than the actual goods delivered (such as beer), resulting in a total expense reclassification of ¥98,050 (excluding tax).

Regarding these actions, Mr./Ms. I stated that Mr./Ms. I had limited experience handling expenses, particularly entertainment expenses, and did not know how to process them correctly. Mr./Ms. I therefore used these methods as a convenient shortcut that did not require such processing.

(b) Additional Findings by the Committee

i Cost Transfer Between Projects

In February 2021, regarding the ●● project, Mr./Ms. I transferred ¥90,000 (excluding tax) of the special vehicle application fee billed by ZZ3 Company to the ●● project site.

	Billing Month	Contractor Name	Reallocated Amount (¥)	Costs Type	Original Construction Project Name	Name of Replacement Project
1	2021 February	ZZ3 Company	90,000	Special Vehicle Application Application Fee	●● Construction (Tokyo Headquarters)	●● Construction (Tokyo Head)

At construction sites using heavy machinery, special vehicle passage permits may be required under the Road Traffic Act and Vehicle Restriction Ordinance for machinery transport. Since obtaining such permits can take several months, applications are sometimes submitted before construction begins. For the ●● Project, Mr./Ms. I requested ZZ3 Company to apply for this permit even before the project was awarded. However, due to a delay in our company's acceptance of the contract for this project, and because ZZ3 Company billed us for the aforementioned special vehicle permit application fee while the project number was still unissued, we were unable to process the accounting for this project. Therefore, after consulting with Mr./Ms. A, Mr./Ms. I transferred the expense to another site, the ●● Construction project.

ii Improper Pool Fund Preparation Involving Tokyo Machinery Center

Mr./Ms. I engaged in improper pool fund preparation involving Tokyo Machinery Center, the details of which are as described in Section 3 below.

iii Circumstances and Motivation Leading to Improper Conduct

Mr./Ms. I voluntarily reported that the improper conduct with X Company was the first instance occurring in 2023. Furthermore, Mr./Ms. I distributed beer vouchers received from X Company to workers such as site foremen and electricians as a token of appreciation. Mr./Ms. I also procured beverages like juice, beer, and snacks from X Company by reallocating expense items.

Regarding why Mr./Ms. I did not formally submit expense claims, Mr./Ms. I stated Mr./Ms. I was unaware of how to use or claim expenses like entertainment expenses. Mr./Ms. I also believed that while drinks like juice could be formally claimed as heatstroke countermeasures, the management department would reject claims outside the May-September period when the heatstroke prevention justification was weaker. Furthermore, Mr./Ms. I feared the management department would question Mr./Ms. I if Mr./Ms. I claimed significant amounts under categories like juice. Regarding the improper conduct with X Company, Mr./Ms. I stated Mr./Ms. I recognized it as inappropriate handling but believed it was common practice within the company and not a major issue.

Regarding cost transfers between projects, Mr./Ms. I stated that Mr./Ms. A had also accommodated Mr./Ms. I when Mr./Ms. I's site faced difficulties. For instance, during project settlements, costs were transferred to sites with surplus capacity. Similarly, costs incurred before a project was officially awarded (and thus lacked a project number) were transferred to other sites. Consequently, when Mr./Ms. I's site generated profits and had surplus capacity, he informed Mr./Ms. A and sometimes encouraged Mr./Ms. I to transfer costs to other sites to have them allocated to other sites. Mr./Ms. I described this as a mutually supportive relationship.

(c) Spread within the company

Regarding the inappropriate conduct with X Company, there was no indication of specific consultations with other employees.

Regarding cost transfers between projects, sometimes he consulted Mr./Ms. A himself/herself, and other times Mr./Ms. A requested that costs from other projects running at a loss be transferred to projects with surplus (profitable) sites managed by Mr./Ms. I. It can be said that consultations regarding transfers were held with Mr./Ms. A, Mr./Ms. I's superior.

I Mr./Ms. J

(a) Summary of the Internal Investigation Committee Report

Mr./Ms. J of the Construction Section, Construction Department, Ground Engineering Division, between December 2022 and August 2024, had X Company issue invoices under different names than the actual goods (beverages) delivered to our company, resulting in a total cost reallocation of ¥408,420 (excluding tax).

Regarding these actions, Mr./Ms. J stated that Mr./Ms. J felt uneasy about processing juice-like beverages under labor management expenses and that Mr./Ms. J had some understanding that orders under ¥500,000 could be placed without going through the checks of the base's department manager or the purchasing department.

(b) Additional Findings by the Committee

i Other Improper Conduct

No additional inappropriate acts by Mr./Ms. J were newly determined beyond those stated in the Internal Investigation Committee Report.

ii Circumstances and Motives Leading to Improper Conduct

Regarding Mr./Ms. J's motivation for the inappropriate actions, Mr./Ms. J stated that Mr./Ms. J did not perceive the practice as particularly wrong, as it was convenient and no one suggested stopping it. While Mr./Ms. J was aware it was inappropriate, Mr./Ms. J had little sense of it being problematic. This stemmed from the fact that Mr./Ms. J had not received specific training on proper accounting procedures since joining the company and believed such practices were commonplace not only within our company but throughout the construction industry.

iii Other factual circumstances indicating the existence of improper conduct, though not specific enough to identify individual cases

Mr./Ms. J instructed three junior colleagues working under Mr./Ms. J at the site where Mr./Ms. J served as director to order beverages from X Company. In practice, when the juniors ordered beverages from X Company and X Company then emailed Mr./Ms. J (with the juniors copied in) to ask which expense category to use for billing, Mr./Ms. J replied to these emails providing specific instructions on how to reclassify the expenses. Mr./Ms. J's replies also included the juniors in the recipients.

Mr./Ms. J also stated that, under the direction of Mr./Ms. A, the Construction Department Manager, cost transfers between projects were performed. (However, specific dates, project names, and amounts are not recalled and are difficult to identify).

(c) Spread within the company

Mr./Ms. J himself/herself believed that cost item transfers were "common practice" in the construction industry even before joining our company. Mr./Ms. J stated that Mr./Ms. J began doing them at our company after hearing from X Company that such transfers were possible. Mr./Ms. J also stated that Mr./Ms. J taught this method to Mr./Ms. J's juniors.

Regarding cost reallocation, Mr./Ms. J stated that, following instructions from Mr./Ms. A, who was the Construction Department Manager at the time, Mr./Ms. J transferred expenses from loss-making projects to other projects and also instructed clerical staff at the construction office to do the same.

J Mr./Ms. K

(a) Summary of the Internal Investigation Committee Report

Mr./Ms. K of the Construction Section, Construction Department, Ground Engineering Division, instructed X Company to bill our company under different item names than the actual goods (alcohol) delivered between December 2021 and December 2022, resulting in a total cost reallocation of ¥227,240 (excluding tax).

Regarding these actions, Mr./Ms. K stated Mr./Ms. K did not consider changing expense categories problematic and had altered them for easier processing.

From August 2022 to July 2024, Mr./Ms. K had Z2 Company bill our company under different names than the actual goods (beverages) delivered to us, resulting in a total expense category change of ¥157,000 (excluding tax).

(b) Additional Findings by the Committee

i Other Improper Conduct

Regarding Mr./Ms. K, no new inappropriate acts were found beyond those already established in the Internal Investigation Committee Report.

ii Circumstances and Motives Leading to Improper Conduct

Shortly after joining the company, Mr./Ms. K was told by the construction site manager that "if you want drinks, it's better to order them from a vendor." Mr./Ms. K then began ordering beverages from cooperative vendors and altering expense categories to submit claims. For marine construction, Mr./Ms. K used X Company, and Z2 Company for land-based projects. Mr./Ms. K stated that providing alcohol was customary for offshore projects because field workers lived aboard ships. Mr./Ms. K claimed the beverage orders were made under the direction of the site manager.

Mr./Ms. K also stated that purchasing beverages at home centers required Mr./Ms. K to advance the expenses and then seek reimbursement, which was troublesome. Mr./Ms. K thought that by requesting the subcontractor, they would deliver directly to the site, saving Mr./Ms. K the trouble of transporting them. Mr./Ms. K only realized that changing the expense category was wrong after it was pointed out during the internal investigation committee's inquiry. Mr./Ms. K stated that since everyone was doing it, Mr./Ms. K didn't think it was wrong at the time.

(c) Spread within the Company

Mr./Ms. K stated that, as described above, shortly after joining the company, the construction site manager taught Mr./Ms. K the method of ordering beverages from subcontractors and having them bill under a different expense category. Mr./Ms. K also stated that since the practice of expense category switching for beverages was already widespread when Mr./Ms. K joined the company, Mr./Ms. K understood it was done at every site.

K Mr./Ms. M

(a) Summary of the Internal Investigation Committee Report

i Improper Conduct with Z1 Company

(i) Creation of Pool Funds through Fictitious/Exaggerated Invoices, Receipt of Cash, Purchase of Receipts

Mr./Ms. M of the Construction Section, Construction Department, Ground Improvement Division, from January 2023 to November 2024, in multiple ground improvement projects Mr./Ms. M was involved in, had Z1 Company submit fictitious orders for fuel costs that were never supplied to our company, with the purpose of covering future fuel expenses. Mr./Ms. M caused our company to pay Z1 Company a total of 105,000 yen (excluding tax).Subsequently, Mr./Ms. M received fuel deliveries from Z1 Company equivalent to this amount.

ii Improper Conduct with Z4 Company

(i) Reallocation of Expense Items Within the Same Project

From November 2022 to December 2024, Mr./Ms. M had Z4 Company submit invoices to our company under different names than the items (beverages) actually delivered, resulting in a total cost reallocation of ¥147,600 (excluding tax).

(ii) Additional Findings by the Committee

i Other Improper Conduct

No additional improper conduct by Mr./Ms. M beyond that documented in the Internal Investigation Committee Report has been newly determined.

ii Circumstances and Motives Leading to Improper Conduct

(i) Regarding the creation of a pool fund through fictitious and inflated billing, receipt of cash, and purchase of receipts

Mr./Ms. M required the use of a vehicle for travel purposes after project completion to continue preparing documents and reports, attend site meetings, etc., necessitating fuel expenses as business costs. However, at our company, since expenses could not be claimed one month after project completion, if he were not assigned to another project thereafter, there would be no project to claim these fuel expenses against, creating an unrecoverable situation. Therefore, Mr./Ms. M explained that Mr./Ms. M had employed a method whereby Z1 Company would submit fictitious orders for unpaid fuel expenses to our company, intended to cover future fuel costs, during the period up to one month after project completion ([23]).Previously, Mr./Ms. M had pointed out problems with this expense mechanism to the sales department, but it was not addressed, as it was considered an unspoken internal rule.

(ii) Regarding cost item transfers within the same project

Mr./Ms. M explained that during a project Mr./Ms. M was managing at the time, a need arose to purchase beverages. Since the site was restricted to authorized personnel only, Mr./Ms. M decided to request beverage supply from Z4 Company, which had access permission. Since Z4 Company is a company that sells petroleum products and is our supplier for fuel in our ground improvement projects, it was anticipated that if we attempted formal processing, the management department would inquire why Z4 Company was being requested for beverages. Considering that explaining this to the management department would be cumbersome and complicated, it was decided to have Z4 Company issue an invoice to our company under a different item name than the actual goods (beverages) delivered.

(c) Spread within the Company

Mr./Ms. M stated that not only himself/herself, but also personnel in the Construction Department, had engaged in inappropriate practices such as fictitious orders and expense category transfers at construction sites under the Kitakanto Branch.

L Mr./Ms. N

[23] In practice, expenses not directly linked to specific construction projects could be recorded as general administrative expenses for the branch office.

(a) Summary of the Internal Investigation Committee Report

i Reallocation of Expense Items Within the Same Project

①In January 2024, Mr./Ms. N of the Construction Department, Construction Section, Ground Engineering Division, had Z4 Company issue an invoice under a different name than the actual goods (tires) delivered to our company, resulting in a cost item transfer of ¥72,000 (excluding tax).

ii Cost Reallocation Between Projects

In February 2024, Mr./Ms. N, at the suggestion of Mr./Ms. D from the Construction Department, Construction Division, Ground Improvement Business Headquarters, had Z12 billed ¥245,000 (excluding tax) for the month's fees related to the rough-terrain crane used for ground improvement work. This amount was billed as expenses for another adjacent site where Mr./Ms. D served as the construction site manager.

(b) Additional Findings by this Committee

i Other Improper Conduct

No additional inappropriate conduct by Mr./Ms. N beyond what was documented in the Internal Investigation Committee Report has been newly determined.

ii Circumstances and Motives Leading to Improper Conduct

(i) Regarding the Reassignment of Expense Items Within the Same Project

Mr./Ms. N stated that Mr./Ms. N had left tires Mr./Ms. N used at the construction office of the Kitakanto Branch, but someone took them and they were lost. Mr./Ms. N considered the formal procedure for purchasing replacements to be cumbersome and involved too much paperwork and explanation. Therefore, Mr./Ms. N arranged for Z4 Company to submit an invoice to our company under a different item name than the actual goods (tires) delivered to us. According to Mr./Ms. N, since the cost item transfer only changed the expense category within the company and did not affect the company's income and expenditure, Mr./Ms. N did not feel particularly guilty.

(ii) Regarding cost transfers between projects

Regarding the project he was responsible for, Mr./Ms. N stated that towards the end of the project, there was a shortfall equivalent to the cost of one rough-terrain crane. Following the standard procedure—obtaining a new quotation from the subcontractor and submitting it to the head office purchasing department—would have taken too much time. Therefore, Mr./Ms. N consulted with Mr./Ms. D, who was the site manager at an adjacent construction site at the time. They agreed that Mr./Ms. D would request the cost as if it were for Mr./Ms. N's own project's site needs. With Mr./Ms. D's consent, the cost was transferred. According to Mr./Ms. N, Mr./Ms. N felt little guilt about transferring costs between projects because it merely changed the expense category within the company and did not affect the company's overall income and expenditure.

(c) Spread within the Company

When performing cost transfers, Mr./Ms. N discussed and decided with Mr./Ms. D, the construction site manager of the receiving project,

indicating information sharing. Mr./Ms. D was also included in the email addressee list for the cost transfer instruction sent to Z12 Company. Mr./Ms. D was included in the CC field.

M Mr./Ms. O

(a) Summary of the Internal Investigation Committee Report

i Improper Conduct with Z5 Company

(i) Reallocation of Expense Items Within the Same Project

Mr./Ms. O of the Construction Section, Construction Department, Ground Engineering Division, caused Z5 Company to submit invoices under different item names than the items (surveying equipment, etc.) actually delivered to our company between February 2022 and June 2022, resulting in a total cost reallocation of ¥800,000 (excluding tax) (①)

ii Improper Conduct with Company Z6

(i) Reallocation of Expense Items Within the Same Project

Mr./Ms. O instructed Z6 to bill our company under different item names than the actual items (drones) delivered to us between September 2019 and March 2020, resulting in a total expense reclassification of ¥280,000 (excluding tax) (②)

(b) Additional Findings by the Committee

i Newly Established Facts

(i) Creation of Pool Funds, Receipt of Cash, etc., and Purchase of Receipts through Fictitious and Excessive Invoicing

From around 2021 to around 2023, Mr./Ms. O, in multiple ground improvement projects Mr./Ms. O was in charge of, had Z1 Company submit fictitious fuel expense orders to our company for the purpose of covering future fuel costs. Mr./Ms. O then had our company pay Z1 Company a total of ¥50,000 (excluding tax), thereby creating a pool fund.

(③)

Specifically, around January 2021, Mr./Ms. O had Z1 Company pool ¥50,000 (excluding tax) through the ●● project. Subsequently, in October of the same year, Mr./Ms. O transferred ¥3,195 to the ●● project (the destination project for the remaining ¥46,805 is unknown)

	Claim Month	Contractor Name	Reallocated Amount (¥)	Type of Expense	Original Replacement Work Name	Replacement Destination Project Name
1	January 2021	Z1 Company	50,000	Fuel Cost	●● Construction (Kitakanto Branch)	●● Construction (North Kanto Branch)

ii Circumstances and Motives Leading to Improper Conduct

(i) Regarding the above ①

Mr./Ms. O believed that the number of surveys at the construction site Mr./Ms. O was managing at the time had increased and that tablets and surveying software were needed to improve survey efficiency.

Mr./Ms. O first inquired with Z6 Company about renting tablets and surveying software. When told rental was unavailable and only outright purchase was possible, Mr./Ms. O decided to purchase them himself/herself. Mr./Ms. O had Z6 Company purchase the tablets and then had Z5 Company bill our company under a different item name. Mr./Ms. O then had the payment for the tablets made to Z6 Company via Z5 Company.

Mr./Ms. O further explained that while the approval of the Construction Department Manager was required for proper processing, Mr./Ms. O believed Mr./Ms. O could not obtain approval from Mr./Ms. O's then-superior, the Construction Department Manager, to purchase the tablets. Therefore, Mr./Ms. O changed the expense category on Mr./Ms. O's own judgment.

(ii) Regarding the above point ②

Mr./Ms. O stated that Mr./Ms. O purchased the drone after receiving advice from Mr./Ms. O's then-supervisor, the Construction Department Manager, that drones would be useful for explaining site conditions internally.

Mr./Ms. O believed the expense claim would have been approved if processed properly. However, Mr./Ms. O anticipated repeated inquiries from the management department regarding the necessity of the purchase and the appropriateness of the amount. To avoid the hassle and burden of providing such explanations, Mr./Ms. O did not follow the proper procedure. Instead, Mr./Ms. O had Z6 Company bill our company under a different item name than the drone and performed the expense category change.

(iii) Regarding the above point ③

Mr./Ms. O stated that Mr./Ms. O needed to continue using the vehicle after the project's completion, and fuel costs were necessary as expenses. However, since our company cannot use expenses one month after project completion, if Mr./Ms. O did not subsequently handle another project, it would become impossible to settle those fuel costs as expenses under any project. Therefore, Mr./Ms. O explained that Mr./Ms. O adopted the method of having Z1 Company issue fictitious invoices for unpaid fuel costs to our company, intended to cover future fuel expenses.

[24].

(c) Spread within the company

Mr./Ms. O stated that Mr./Ms. O devised the expense category transfer method himself/herself. However, Mr./Ms. O also perceived that nearly all project managers were involved in similar improper practices. Mr./Ms. O stated that Mr./Ms. O had heard such improper practices were occurring at least by around 2000, when Mr./Ms. O became a project manager.

N Mr./Ms. P

(a) Summary of the Internal Investigation Committee Report

i Receipt of Money and Gifts

[24] As stated above, expenses not directly linked to specific construction projects can be recorded as general administrative expenses for the base.

In February 2022, Mr./Ms. P of the Construction Department, Construction Division, Ground Engineering Headquarters, had Z7 Company bill the Company for transportation costs when purchasing a tablet device for personal use. The Company paid Z7 Company ¥172,000 (excluding tax). Meanwhile, Mr./Ms. P received a tablet worth ¥100,000 from Z7 Company and reclassified the expense item.

(b) Additional Findings by the Committee

i Other Improper Conduct

No new inappropriate acts by Mr./Ms. P were found beyond those stated in the Internal Investigation Committee Report.

ii Circumstances and Motives Leading to Improper Conduct

Mr./Ms. P considered purchasing a tablet to work more efficiently but did not consider applying for it as an expense. Mr./Ms. P requested the tablet purchase from Z7 Company, a company with which Mr./Ms. P had a business relationship, while instructing them to process it under the substitute account items "steel plate bending" and "backhoe repair."

However, because the tablet's price was higher than anticipated, Mr./Ms. P subsequently discussed the matter with Z7 Company and agreed to process it under the heading of transportation costs instead of sheet metal bending and backhoe repairs.

Mr./Ms. P stated that Mr./Ms. P himself/herself did not understand why Mr./Ms. P engaged in this inappropriate behavior. Mr./Ms. P also stated that this method was Mr./Ms. P's own idea and was not taught to Mr./Ms. P by any employee of the company.

iii Other factual circumstances indicating the existence of improper conduct, though not specific enough to identify particular cases

In addition to the receipt of money and valuables mentioned in (i) above, Mr./Ms. P stated that, while overall costs remained within the project budget, when individual expense categories showed deficits, a budget shortfall justification document was required. Since internal processing was impossible without this, Mr./Ms. P instructed subcontractors to alter expense categories on their invoices.

(c) Spread within the company

Mr./Ms. P stated Mr./Ms. P was unaware if other employees engaged in similar improper conduct. Mr./Ms. P noted that since Mr./Ms. P himself/herself was doing it, Mr./Ms. P believed it was unlikely no other employees were involved in any improper conduct. However, no objective evidence was found that Mr./Ms. P shared methods of improper conduct with other employees.

O Mr./Ms. Q

(a) Summary of the Internal Investigation Committee Report

The Internal Investigation Committee Report states that, in the internal survey, regarding cost transfer cases at the Tohoku Branch prior to the 2022 case, Mr./Ms. Q of the Construction Department, Construction Section, Panel Business Headquarters, incurred

demolition labor costs of ¥293,000 (excluding tax) for Z10 Company and boring costs of ¥220,000 (excluding tax) for Z11 Company in November 2020. a total of ¥513,000 (excluding tax) – comprising ¥293,000 in demolition labor costs incurred for Z10 Company and ¥220,000 in boring costs incurred for Z11 Company – as expenses for other sites. Additionally, in March 2021, the Construction Site Manager of the Construction Department, Construction Division, Ground Engineering Headquarters charged 740,000 yen (excluding tax) in boring expenses incurred by Z11 Company as costs for other sites. Regarding the latter case, it was determined that the Construction Site Manager who actually billed the expenses as costs for other sites acted upon instructions from the Ground Engineering Department of the Tohoku Branch." On the other hand, it states, "No similar or analogous inappropriate conduct was confirmed at Fudo Tetra other than these cost transfer cases within the Tohoku Branch Ground Engineering Department prior to the 2022 cases."

(b) Additional Findings by the Committee

i Regarding the Improper Conduct Found by the Internal Investigation Committee

Through this Committee's investigation, it was determined that regarding the improper conduct identified by the aforementioned Internal Investigation Committee, the cost transfer between projects concerning the boring expenses for the latter Z11 Company was carried out based on instructions given by Mr./Ms. Q to Mr./Ms. AK.

No other new inappropriate actions were identified regarding Mr./Ms. Q.

ii Circumstances and Motives Leading to the Improper Conduct

Mr./Ms. Q stated that cost transfers between projects had been occurring since Mr./Ms. Q joined Fudo Giken (now Soil Technica) in 1988, and that Mr./Ms. Q had observed Mr./Ms. Q's section chief and office manager at the time making adjustments between projects. Mr./Ms. Q further stated that once Mr./Ms. Q assumed a position managing project budgets, Mr./Ms. Q was swept up in this prevailing practice and also performed cost transfers.

(c) Spread within the company

As described in (b) above, Mr./Ms. Q stated that Mr./Ms. Q had witnessed cost transfers occurring since joining Fudo Giken in 1988. Mr./Ms. Q further stated that once Mr./Ms. Q assumed a position managing project budgets, Mr./Ms. Q was swept up in this culture and conducted cost transfers himself/herself. Mr./Ms. Q also stated Mr./Ms. Q's understanding that cost transfers could not be done arbitrarily without going through management, and that generally, individuals holding positions within the Construction Department issued such instructions.

(2) Regarding Newly Identified Individuals Found to Have Engaged in Inappropriate Conduct

The internal investigation committee conducted a questionnaire survey targeting 97 companies selected based on specific criteria. However, it did not conduct a data flow investigation of our employees focusing on the domains of our partner companies.

Considering that the subjects under investigation carried out inappropriate conduct with the cooperation of partner companies, this committee has conducted an investigation targeting the email data of all our officers and employees. This investigation covers partner companies selected based on certain criteria(12 partner companies excluding X Company identified by the Internal Investigation Committee,plus 3 partner companies identified in the 2022 internal investigation, and companies whose average order value, number of orders, etc., based on partner company and workshop approvals were highly similar). As a result,

during the internal investigation committee's inquiry, new suspicions arose regarding the involvement of several individuals who were not subjects of the Committee's investigation in inappropriate conduct. Consequently, interviews and other investigations were conducted regarding these individuals, revealing the following new facts concerning inappropriate conduct and its scope. Consequently, interviews and other investigations were conducted regarding these individuals, revealing the following new facts concerning inappropriate conduct and its scope.

A Mr./Ms. R

(a) Improper Conduct Identified

i Creation of a slush fund

In March 2021, while serving as the Section Manager in charge of the Construction Section, Construction Department, Ground Engineering Division (Kyushu) and concurrently as the Construction Manager of the Kyushu Branch Ground Engineering Department, Mr./Ms. R created a pool fund by causing ZZ4 Company to overbill by ¥3,000,000 for the ●● Construction Project subcontracted to them.

Mr./Ms. R then used this pool fund to request a ¥1,500,000 reduction from the progress payment for the ●● Project and actually had ZZ4 Company make such a claim. Mr/Ms.R stated Mr./Ms. R does not recall the use of the remaining ¥1,500,000 or whether it was settled.

Meanwhile, ZZ4 Company claims it never received the pool funds and that it merely discounted ¥1,500,000 from the ●● Project payment. However, based on the correspondence between Mr./Ms. R and the ZZ4 Company representative, it is acknowledged that at least between Mr./Ms. R and the ZZ4 Company representative, ¥3,000,000 was being used as pool funds for the ●● Project. Therefore, it was determined that Mr./Ms. R engaged in improper conduct by creating the pool funds.

Furthermore, from around June to July 2023, Mr./Ms. R engaged in improper conduct by instructing ZZ5 Company to inflate labor costs and other expenses related to outfitting work billed to our company, thereby securing pool funds. By around July 2023, Mr/Ms.R had accumulated a total of ¥1,684,000 in pool funds held by ZZ5 Company.

	Claim Month	Contractor Name	Overbilled Amount (JPY)	Project Name
1	March 2021 Approx.	ZZ4 Company	3,000,000	●● Construction (Kyushu Branch)
2	June 2023	ZZ5 Company	1,000,000	●● Construction (Kyushu Branch)
3	June 2023	ZZ5 Company	684,000	Same as above

ii Receipt of Money or Property

Mr./Ms. R had ZZ5 Company send Mr./Ms. R ¥90,000 worth of gift certificates from the pools in items 2 and 3 of the table above on June 29, 2023, and embezzled them. Mr./Ms. R cashed these gift certificates and spent the proceeds on gratuities at a farewell party within the company, as well as on meals and drinks with clients (prime contractors) and construction department staff. Furthermore, on July 13, 2023, Mr./Ms. R had ZZ5 Company pay ¥26,000 in transportation expenses from the pool funds for a farewell party for Kyushu Branch employees, which included ZZ5 Company personnel.

Similarly, around August 2023, Mr./Ms. R had ZZ5 Company send Mr./Ms. R ¥90,000 worth of gift certificates from the same pool fund and embezzled them. Mr./Ms. R cashed these gift certificates and spent the money on meals with clients (prime contractors) and construction department staff, as well as for personal shopping.

Furthermore, even after these actions depleted the pool funds that Mr./Ms. R had held for ZZ5 Company, calculations indicate that ¥1,478,000 remained. However, Mr./Ms. R stated that Mr./Ms. R never settled this amount. On the other hand, ZZ5 Company maintains it never received the pooled funds and asserts that the amounts listed as items 2 and 3 in Table i above represent legitimate sales revenue. However, based on the correspondence between Mr./Ms. R and ZZ5 Company's representative, it is acknowledged that at least between Mr./Ms. R and ZZ5 Company's representative, ¥1,684,000 was treated as pool funds, from which the farewell party transportation expenses and gift certificates were sent. Therefore, it was determined that Mr./Ms. R engaged in improper conduct in creating the pool funds.

Incidentally, around August 2021, Mr./Ms. R also requested ZZ4 Company to purchase gift certificates from the pool fund listed as item 1 in Table i above and send them to Mr./Ms. R. However, ZZ4 Company did not comply with this request, and thus the receipt of these funds and goods was attempted but not completed.

	Date of Embezzlement	Company Name	Amount Embezzled (JPY)	Method
1	June 2023 29	ZZ5 Company	90,000	had gift certificates worth ¥90,000 sent to himself/herself.
2	July 2023 13	ZZ5 Company	26,000	Fare for farewell party: 26,000 yen from the pool fund.
3	August 2023 Around	ZZ5 Company	90,000	Had gift certificates worth ¥90,000 sent to himself/herself.

iii Cost Transfer Between Projects

Between July and August 2025, Mr./Ms. R had ZZ6 Company bill the ●● Project for a total of ¥80,000 (excluding tax) in lease payments for unit houses, copiers, and air conditioners incurred during the ●● Project. Furthermore, Mr./Ms. R performed a similar transfer for ZZ7 Company regarding a total of ¥13,700 in lease payments for a shutter warehouse.

	Billing Month	Vendor Name	Replacement Amount (JPY)	Type of Expense	Original Replacement Work Name	Replacement Destination Project Name Name
1	July–August 2025	ZZ6 Company	80,000	Lease payments for unit houses, copiers, and air conditioners	●● Construction (Kyushu Branch)	●● Construction (Kyushu Branch)

2	Same as above	ZZ7 Company	13,700	Rental Fee for Shutter Warehouse Rental Fee	Same as above	Same as above

(b) Circumstances and motives leading to the inappropriate conduct

i Regarding Pool Funds for Partner Companies

Mr./Ms. R stated that Mr./Ms. R began these improper acts around 2018 when Mr./Ms. R became section chief at the Kyushu Branch. However, the company recognizes that improper profit adjustments through cost transfers and pool funds had been occurring since before that time. Regarding these recent improper acts, Mr./Ms. R stated they were done to avoid construction projects turning unprofitable through profit adjustments. Mr./Ms. R stated Mr./Ms. R's understanding as follows: "If a project runs at a loss, the evaluation of the construction site manager in charge of that project declines. I felt it was unfortunate that their evaluation would decline simply because they were assigned to a project with a tight budget due to random assignment." However, the Committee's investigation found no evidence that personnel evaluations were negatively impacted solely because a project was unprofitable or had a poor gross profit margin. Therefore, this view indicates that Mr./Ms. R lacked the understanding that gross profit margin is not included in the criteria for personnel evaluations.

ii Regarding the Acceptance of Money and Gifts

Mr./Ms. R stated that when preparing farewell gifts (gift certificates) from the pool fund, he "took advantage of the situation, thinking 'I'll take one for myself too' (not just the ones to give to others)."

(c) Spread within the company

Mr./Ms. R stated that Mr./Ms. R personally engaged in improper acts such as cost reallocation and accepting money or valuables around 2018. However, Mr./Ms. R also stated that these improper acts had been occurring within the company prior to that time for the purpose of profit adjustment.

Regarding this point, some emails concerning cost transfers with cooperating contractors included the construction site manager in CC. There was no indication that these methods were particularly concealed, and it is acknowledged that multiple construction site managers overseeing projects within the Kyushu Branch's jurisdiction were aware of these methods (however, no evidence was found to confirm that this knowledge was shared among all construction site managers belonging to the Kyushu Branch).

Additionally, some correspondence regarding the pool fund with ZZ4 Company included Kyushu Branch site managers in CC. While the existence of the pool fund was known to others besides Mr./Ms. R, the private embezzlement was not discovered to have been committed by anyone other than Mr./Ms. R within the Kyushu Branch.

B Mr./Ms. T

(a) Improper Conduct Found

i Creation of Pool Funds through Fictitious and Excessive Billing

Mr./Ms. T, who was the manager of the Groundwork Department at the Kitakanto Branch at the time, caused Z6 Company to submit

fictitious orders to our company for inflated charges during the ●● construction project between approximately November 2017 and March 2018. This resulted in our company paying Z6 Company a total of ¥178,000 (excluding tax), thereby creating a slush fund.

	Claim Month	Contractor Name	Overcharged Amount (JPY)	Project Name
1	November 2017 to around March 2018	Z6 Company	178,000	●● Construction (Kitakanto Branch)

Mr./Ms. T stated that regarding the pool funds, around June 2019, Mr./Ms. T purchased 10 dozen golf balls, a Near Pin Draco Flag, golf shoes, a steam iron, and a futon cleaner as prizes for a golf competition. Additionally, around February 2020, Mr./Ms. T purchased an iPad and an iPad case for use at the construction site. All these items were mailed to Mr./Ms. T's home, not to the company. Regarding this, Mr./Ms. T stated, "I had them sent to my home because it would be conspicuous if sent to the company."

ii Cost Transfer Between Construction Projects

In March 2018, Mr./Ms. T had Z6 Company invoice our company a total of ¥212,000 (excluding tax) for construction supplies such as mud balance and mesh sheets delivered to a certain construction site (details unknown), treating it as an expense for the ●● construction project at another site, thereby performing a cost transfer.

	Billing Month	Supplier Name	Reallocated Amount (¥)	Expense Type	Original Replacement Work Name	Replacement Destination Project Name Name
1	March 2018	Z6 Company	212,000	Mudguards and mesh seat etc.	Unknown	●● Construction (North Kanto Branch)

iii Reallocation of expense items within the same project

Mr./Ms. T, between approximately November 2017 and March 2018 (exact timing unknown) through the ●● Construction Project and ●● Construction Project, had Z6 Company bill our company under different names (e.g., mat balance, etc.) for items actually delivered to us (cyclone vacuum cleaner, Panasonic garment steamer, watches, mobile batteries, etc.) under different names (e.g., mat balances) and performed a total expense category transfer of ¥273,000 (excluding tax).

	Billing Month	Vendor Name	Reassigned Item	Reassigned Amount (¥/tax)	Project Name
1	From November 2017 to around March 2018	Z6 Company	Cyclone vacuum cleaner, garment steamer, wristwatch, mobile battery, etc. → Mad Balance, etc.	273,000	●● Construction (Kitakanto Branch)

(b) Circumstances and Motives Leading to Improper Conduct

Mr./Ms. T explained that Mr./Ms. T had annually organized golf competitions and social gatherings at the North Kanto Branch (notably attended by executives from the branch's Construction Department, including Mr./Ms. AL and Mr./Ms. S) Mr./Ms. T resorted to fictitious orders to obtain golf equipment and household appliances like electric kettles to serve as prizes for these golf competitions. Regarding this point, Mr./Ms. T explained that Mr./Ms. T believed the administrative department would have pointed out that the items were too expensive if Mr./Ms. T had processed them properly, and Mr./Ms. T resorted to fictitious orders to avoid this. Mr./Ms. T also stated that Mr./Ms. T had initially planned to purchase gift certificates for the golf competition, but when Mr./Ms. T approached Z6 Company about purchasing gift certificates, they refused. The pool fund was created by placing fictitious orders at sites with budget surpluses to obtain prizes for the aforementioned golf competition. (Note: Among the items actually delivered were items like golf shoes, which are unlikely to be considered prizes for a golf competition; however, Mr./Ms. T insists they were not misappropriated for personal use.)

Mr./Ms. T also stated that some home appliances were purchased for use at the site, dormitory, and general office, but that none of these appliances currently remain at the site, dormitory, or general office.

(c) Spread within the Company

No evidence of collusion or information sharing within the company regarding the above inappropriate acts was confirmed.

[25] Other items included a golf green fork, a wristwatch-type GPS, a hand cleaner, golf balls, a golf bag , a set of 10 famous ramen noodles from around Japan, a round stand bag, a futon cleaner, an electric kettle, a sonic toothbrush, a ceramic sweater, a high-pressure cleaner, an IH rice cooker, and a floor cushion.

C Mr./Ms. S [26]

(a) Certified Improper Conduct

i Creation of a pool fund

Mr./Ms. S used surplus budgets from the original sites as follows to place fictitious orders with Z11 Company and ZZ8 Company, respectively, and requested them to charge additional amounts, thereby creating a pool fund. He/She diverted these pool funds to cover preliminary investigation costs incurred at other sites. However, it was not possible to determine which site's surplus budget was diverted to which site and how, as there were no records.

	Payment Month	Fictitious Order Amount (JPY)	Original Project Name
1	May 2014	4,000,000	●● Construction
2	December 2014	3,000,000	●● Construction

Mr./Ms. S also stated that, while he/she could not specify the source or destination sites or the amounts, he/she similarly placed fictitious orders not only with Z11 Company and ZZ8 Company but also with ZZ9 Company and ZZ10 Company, had them charge inflated amounts, and pooled those amounts.

ii Cost Transfer Between Projects

When Mr./Ms. S was serving as the General Manager at the Kitakanto Branch, he/she arbitrarily processed the labor costs for a dispatched employee working at the General Office. These costs should have been allocated proportionally across all sites where the dispatched employee worked. Instead, he/she internally processed the costs to be borne solely by the following sites. Note that records for the source sites could not be identified or verified.

	Payment Month	Reallocated Amount (JPY)	Reassigned Project Name
1	February 2009	2,000,000	●● Project
2	January 2010	700,000	●● Construction
3	April 2010	1,050,000	●● Construction
4	December 2010	1,050,000	●● Construction

(b) Circumstances and Motives Leading to Improper Conduct

i Regarding the Creation of a Reserve Fund

Mr./Ms. S stated that he/she began creating a pool fund to ensure profits could be secured even in cases where the budget was surplus or where unexpected expenditures at the next site made securing profits difficult.

ii Cost Transfers Between Projects

[26] Although the Company imposed disciplinary action following an internal investigation committee inquiry and subsequent additional investigation, the records submitted to this Committee do not detail specific individual acts of misconduct constituting the basis for those findings. Therefore, this Committee has determined to state the facts it has established as follows.

Mr./Ms. S stated that he/she initiated the practice around the time he/she became the General Manager of the Kitakanto Branch because he/she found the process of apportioning costs to all sites where the dispatched employee worked to be cumbersome and troublesome.

(c) Other factual circumstances indicating the nature of the inappropriate conduct, though not specific enough to identify particular cases

Mr./Ms. S also stated that, while unable to specify sites or amounts, he/she had received pool funds in the form of gift certificates, which he used for client greetings and as prizes at golf competitions hosted by prime contractors (though he/she stated he/she never used them for personal purposes).

Beyond the above, he/she stated that until around 2015, it was routine practice to reclassify expenses for purchasing beverages distributed to workers as fuel costs, and to reallocate expenses from loss-making sites to profitable ones.
(However, the specific profitable/unprofitable sites and amounts involved in these transfers could not be identified due to a lack of records.)

(d) Spread within the company

All of the above inappropriate acts occurred over 10 years ago, and as there are no records, it is unclear whether there was any particular collusion or sharing of information within the company. However, regarding (i) the creation of the pool fund, Mr./Ms. S stated that there were individuals who had engaged in similar acts before him, suggesting that such practices existed within the company even before he/she began creating the pool fund.

He/She stated that cost transfers between projects and expense category transfers within the same project had long been practiced at the company. He/She also stated that he/she received consultations from project managers regarding these matters and that he/she gave instructions to project managers. He/She was copied on emails related to inappropriate conduct, such as an email from Mr./Ms. Q instructing a site manager at another location to transfer ¥220,000 (excluding tax) in boring costs incurred by Z11 Company between projects, and an email from Mr./Ms. AK instructing employees at the machine center to transfer labor costs between projects. This indicates that Mr./Ms. S was aware of and condoned the inappropriate practices of cost transfers and cost item transfers.

D Mr./Ms. AE

(a) Improper acts determined

i Creation of a Pool Fund

①On August 2, 2019, Mr./Ms. AE instructed Z1 Company to inflate the fuel charge by 100 liters (= ¥14,200) to create a pool fund. At this point, the total pool fund for Z1 Company was ¥43,100. However, Mr./Ms. AE stated only that he/she had no recollection of how this was used or how it was ultimately handled, and no records or documents indicating the use of the pool fund were found.

②Mr./Ms. AE requested that Z11 Company prepare an estimate for ¥1,200,000 when replacing the table in (ii) below, even though the actual cost would have been ¥1,100,000.

Regarding the ¥100,000 difference, Mr./Ms. AE's email to Z11 Company stated “the excess amount will be deposited,” but according to Mr./Ms. AE, he/she did not intend to divert it for any specific project. He/She requested Z11 Company to prepare a quotation with the understanding that he/she would ask for a discount on future projects. He/She further stated that he/she did not verify the accuracy of the amount or breakdown of Z11 Company's subsequent invoices to our company, nor did he/she find any evidence of fictitious or inflated billing.

③On July 28, 2020, Mr./Ms. AE exchanged emails with Z7 Company regarding adding markups to costs such as machinery damage fees and steel plate leasing at the ●● construction site. Regarding the reason for the markup, Mr./Ms. AE explained that under our company's system, requesting items not covered by the existing contract requires separate procedures. To avoid these procedures, he/she adjusted the amounts so that items outside the existing contract could be billed within it. As a result of this adjustment, an additional ¥78,000 was billed to Z7 Company. Mr./Ms. AE stated this was done as a gesture of gratitude, acknowledging Z7 Company's consistent cooperation with unreasonable requests, such as urgent machinery removal. Mr./Ms. AE emphasized there was no intent to divert the funds to other projects or embezzle them.

	Billing Month	Vendor Name	Overcharged Amount (¥)	Project Name
1	August 2, 2019	Z1 Company	14,200	●● Construction (Chugoku Branch)
2	October 31, 2018	ZZ11 Company	100,000	●● Construction (Hokuriku Branch)
3	July 28, 2020	Z7 Company	78,000	●● Construction Project (Chugoku Branch)

ii Cost Transfer Between Projects

①In September 2018, Mr./Ms. AE transferred gasoline fuel costs totaling ¥20,160 (excluding tax) incurred for Z1 Company in the ●● Project to the ●● Project, another construction site, and processed the transfer.

② In October 2018, Mr./Ms. AE transferred the total machinery transportation costs of ¥900,000 (excluding tax) incurred by ZZ11 Company for the ●● Construction Project to the ●● Construction Project, another construction site, and processed the transfer.

③In January 2022, Mr./Ms. AE transferred repair costs totaling ¥446,000 (excluding tax) incurred by Z7 Company in the ●● Construction Project to the ●● Construction Project, another construction site, and processed the transfer.

	Billing Month	Vendor Name	Reimbursement Amount (¥)	Cost Type	Original Replacement Work Name	Replacement Destination Project Name

1	September 2018	Z1 Company	20,160	Gasoline Fuel Expenses	●● Construction (Hokuriku Branch)	●● Construction (Hokuriku Branch)
2	October 2018	ZZ11 Company	900,000	Machinery Transportation Fee	●● Construction (Hokuriku Branch)	●● Construction (Hokuriku Branch)
3	January 2022	Z7 Company	446,000	Repair Costs, etc.	●● Construction (Chugoku Branch)(*)	●● Construction (Chugoku Branch)

(*) Mr./Ms. AE stated he/she has no clear memory of the original replacement construction site as it was not under his/her direct responsibility. However, the email correspondence between Mr./Ms. AE and Z7 Company contained the notation "●●". After Mr./Ms. AE confirmed the sites where "●●" work was performed during the same period, he/she reported that the relevant construction existed and that the original replacement site was likely that construction. Therefore, it is recorded.

Regarding points 1 and 2 above, Mr./Ms. AE stated that while his memory of the substitution process is vague, he/she arbitrarily specified the substitution amount to the subcontractor for the combined costs billed by the subcontractor for the two original sites, and transferred it to the replacement project.

iii Reallocation of Cost Items Within the Same Project

Mr./Ms. AE requested Z1 Company to change the expense items on the invoices at each construction site as follows and then submit them to our company.

	Billing Month	Reallocation Details	Reassigned Amount (JPY, tax excluded)	Project Name
1	April 2019	Catalog Gift → Gasoline Fuel Expenses	40,000	●● Construction (Chugoku Branch)
2	March 2020	Masks → Gasoline Fuel Expenses	Maximum 28,400 (*)	●● Construction (Chugoku Branch)

(*) The fuel cost being billed is ¥28,400, and while the portion attributable to masks is unknown, it is recorded as a maximum of ¥28,400. It is unknown, but it is recorded as a maximum of ¥28,400.

(b) Background and Motivation for Improper Conduct

i Regarding the creation of the pool fund

Regarding ①, the individual only stated that they have no recollection of the circumstances surrounding the creation of the pool fund, how it was used, or the final disposition of the funds. The specific circumstances and motives remain unclear.

Regarding points ②and ③, the individual did not have the intent to divert the pooled funds to other projects or to embezzle them for personal gain.

I did not pay extra, but rather stated that I paid more as a gesture of gratitude for accommodating unreasonable requests (③) and to request lower rates for future work (②).

ii Regarding cost allocation between projects

Regarding ①, Mr./Ms. AE stated he/she did not clearly remember, but since he/she could not determine the specific fuel usage at each of the two source sites, he/she arbitrarily allocated the amount.

Regarding point ②, Mr./Ms. AE stated that when a quotation for the total additional machinery transportation costs for the two source sites was received, he/she felt it would be cumbersome to process the additional orders separately for each site. Therefore, he/she adjusted the allocation so that part of the costs could be processed within the existing budget of the destination site, allowing the additional order procedure to be completed for just one site.

Regarding ③, Mr./Ms. AE stated that since the original construction site was not under his direct responsibility, he/she does not clearly recall the specific circumstances that led to the cost transfer.

iii Regarding cost item transfers within the same project

Regarding Table 1, Mr./Ms. AE stated that since the entertainment expense budget was small to begin with, he/she believed that if catalog gifts were recorded as entertainment expenses, it might prevent their use for other purposes. Therefore, he/she requested they be billed under a different expense category.

Regarding the masks in Table 2, Mr./Ms. AE stated that while they were purchased for COVID-19 countermeasures, they fell under an unusual expense category. Mr./Ms. AE felt it would be troublesome to submit a separate claim, so they attempted to cover the cost using existing expense categories and made the reclassification accordingly.

(c) Spread within the Company

Regarding the above inappropriate actions, Mr./Ms. AE conducted the email exchanges with the subcontractor alone, and there is no indication of collusion with other employees. However, concerning the reclassification of repair costs, etc., mentioned in point 3 of the above "(ii) Cost Reclassification Between Projects," he/she stated that, while his/her memory is vague, he/she reclassified them based on instructions from at least one other employee responsible for the ●● site.

E Mr./Ms. AH

(a) Improper Conduct Found

i Creation of a Pool Fund

In May 2021, Mr./Ms. AH engaged in improper conduct by causing Z11 Company to overbill our company by ¥2,000,000 for the ●● project and securing this amount as a pool fund for Z11 Company. Mr./Ms. AH explained that this pool fund was used for other projects within the same fiscal year, but it was unclear for which specific projects it was used.

	Billing Month	Contractor Name	Overbilled Amount (¥)	Project Name
1	May 2021	Z11 Company	2,000,000	●● Construction (Kitakanto Branch)

ii Cost Transfer Between Projects

In February 2022, Mr./Ms. AH instructed the Z1 Company representative to reallocate the gasoline cost for the liaison vehicle (¥5,600) to a different site not managed by the branch manager who used the vehicle.

	Billing Month	Vendor Name	Reallocated Amount (¥)	Expense Type	Original Replacement Work Name	Replacement Destination Project Name
1	February 2022	Z1 Company	5,600	Gasoline Fuel Cost	No specific current site	●● Construction Project (Kitakanto Branch)

(b) Circumstances and Motives Leading to Improper Conduct

i Regarding the Creation of the Pool Fund

Mr./Ms. AH stated that the creation of pool funds began around 2021, when the volume of construction projects increased. He/She explained that prior to the 2022 project being widely known within the company, the field prioritized profit above all else. If a project incurred a loss, the Construction Manager in charge of that site would face negative perceptions from headquarters. Therefore, to level out profits, they had subcontractors hold pool funds.

ii Regarding cost transfers between projects

Regarding gasoline cost transfers, it was explained that when a site manager using a liaison vehicle was temporarily not assigned to a specific site, and there was no active site to allocate the expense to, the cost was transferred to the site managed by another site manager, as indicated in the above transfer destination project name. Mr./Ms. AH stated that while site budgets become available only after the main contractor signs a contract and construction actually begins, in reality, expenses such as site surveys and other costs occur even before contracting. He/She acknowledged that transferring these costs to another site already underway had been practiced at least around 2021, and that they simply followed the example set by their superiors.

(c) Spread within the company

Mr./Ms. AH stated that the improper practice of requiring subcontractors to set aside reserve funds was carried out under the direction (instructions or approval) of the section chief at the base office, and the site manager was also aware. This was done by the section chief to level profits and avoid projects running at a loss. At least within the Kitakanto Branch where Mr./Ms. AH was assigned at the time this improper practice occurred, it is recognized that this scheme was carried out in consultation with the section chief (Mr./Ms. T).

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It is also stated that cost transfers were carried out by the construction section chief at the base, and it is recognized that these were similarly conducted through consultation and sharing of the improper practice methods.

F Mr./Ms. AB

(a) Improper Conduct Found

i Reallocation of Cost Items Within the Same Project

Mr./Ms. AB of the Construction Department, Construction Division, Ground Engineering Headquarters, conspired with Z12 Company at the ●● construction site. To purchase a drone for use at the site, he/she had Z12 alter the purchase item description to "site management equipment" before billing our company, thereby purchasing a drone for ¥132,300 (excluding tax)(Billing date: November 30, 2021; Payment date: December 31, 2021) It is noted that the cost item in the cost ledger was processed as "Temporary Material Costs" under "Preparatory Work," and there was no discrepancy with the actual usage.

	Invoice Month	Vendor Name	Replacement Details	Reimbursed Amount (JPY, tax)	Project Name
1	November 2021	ZZ12 Company	Drone → Current Site Management Equipment etc. (However specific details not disclosed))	132,300	●● Construction (Hokkaido) Branch Office)

ii Reassignment of expense items within the same project (attempted)

Mr./Ms. AB, at the ●● construction site, conspired with Z1 Company and instructed them to bill Z1 Company for three boxes of masks as fuel expenses. He/She purchased these masks. However, immediately after giving this instruction, overcome with remorse, he/she instructed them again to bill Z1 Company for the masks as mask expenses, and they were properly processed internally as welfare expenses.(Billing date: April 30, 2020; Payment date: May 31, 2020) The Committee confirmed that, as Mr./Ms. AB stated, Z1 Company billed ¥23,375 (tax included) for the masks, and this amount was processed as an expense under welfare benefits.

	Billing Month	Vendor Name	Reimbursement Details	Reimbursement Amount (¥/Excluding tax)	Project Name
1	April 2020	Z1 Company	Mask → Fuel Cost (However, Unfinished) completed)	21,250 (attempted) attempted)	●● Construction (Tohoku Branch)

(b) Circumstances and motives leading to the inappropriate conduct

i Regarding the reallocation of expense items within the same project

Mr./Ms. AB urgently needed a drone to photograph the extensive construction site from above and confirm the overall layout and progress. He/She considered that submitting a formal expense request might be rejected because drones were rare at the time and costing over ¥100,000—relatively expensive for on-site materials—he/she anticipated potential objections or rejection from the headquarters management department. Given the urgent procurement need, he/she consulted Z12 Company and learned it was possible to bill the company under a different item category. Consequently, he/she purchased the drone by changing the expense category.

Mr./Ms. AB stated that while he/she was aware at the time that this was an inappropriate handling, he/she believed it was acceptable since only the expense category changed and there was no substantive financial impact.

ii Regarding the Attempted Reclassification of Expense Items Within the Same Project

Mr./Ms. AB stated that at the time, under the state of emergency declaration due to the spread of the novel coronavirus, masks were out of stock. However, masks were needed for workers at the construction site. He/She was informed that masks could be procured from Z1 Company, and desperate for them, requested the procurement. He/She believed that since Z1 Company was solely a fuel supplier for the liaison vehicle's gasoline and not a supplier for items like masks, submitting a formal expense claim might draw scrutiny from the headquarters' management department. Therefore, he/she confirmed with Z1 Company whether he/she could bill them for the masks as fuel expenses. Since this was possible, he/she intended to process it that way.

However, as mentioned above, feeling responsible for processing items differently, he/she immediately contacted Z1 Company and instructed them to change the item to masks on the invoice.

He/She stated that while he/she was aware at the time that he/she was handling the matter improperly, he/she believed it was acceptable because only the expense category had changed and there was no substantive financial impact.

(c) Spread within the Company

No evidence of specific collusion or information sharing within the company was confirmed regarding the above inappropriate actions.

Mr./Ms. AB stated that cost transfers between projects were frequently performed when he/she joined the company in 2013.

G Mr./Ms. AA

(a) Certified Improper Conduct

i Cost transfers between projects

In May 2025, Mr./Ms. AA recorded the cost of a computer monitor, ¥18,294, and in July 2025, the cost of a digital camera, ¥43,618, as expenses for separate construction projects and processed them as transfers.

Mr./Ms. AA stated that he/she had originally intended to use these items at the original site where the replacement occurred. However, he/she was suddenly transferred to the replacement site and ended up using these items purchased with the original site's budget at the replacement site.

This resulted in a cost transfer.

	Claim Month	Reimbursement Amount (¥)	Type of Expense	Original Project Name	Replacement Destination Project Name
1	May 2025	18,294	PC Monitor Cost	●● Project (Hokkaido Branch)	●● Construction (Tohoku Branch)
2	July 2025	43,618	Digital Card Materials Cost	Same as above	Same as above

(b) Circumstances and Motivation Leading to Improper Conduct

Mr./Ms. AA stated that regarding the cost transfer between the above projects, since procuring new items would require time and effort, he repurposed existing equipment.

(c) Spread within the company

No evidence of collusion with others or sharing of methods regarding the aforementioned cost transfers was found.

However, Mr./Ms. AA stated that since joining the company, he/she had a general sense of adjusting costs across the board rather than per project. He/She also mentioned that for expenses required for pre-order activities (such as site surveys), he/she often procured them by transferring them to the expenses of a site that had just been completed.

H Mr./Ms. AC

(a) Certified Improper Conduct

i Reallocation of Expense Items Within the Same Project

Mr./Ms. AC instructed subcontractors at various construction sites to alter expense items on invoices and submit them to our company as separate items, as detailed below.

	Billing Month	Contractor Name	Reassigned Details	Reclassified Amount (¥/Tax)	Project Name
1	October 2023	Z3 Company	Beverages (beer, canned coffee, water, etc.) → Impact Driver, sockets	86,800	●● Construction (Hokkaido Branch)
2	December 2023	Z3 Company	Beer, Distance →Impact Driver,	152,200	●● Construction (Hokkaido Branch)

			Impact wrench, socket, electric sander, cutting disc		

(b) Circumstances and Motives Leading to Improper Conduct

Regarding the reclassification of expenses for beverages such as beer distributed to workers, Mr./Ms. AC stated that he believed such expenses were unrelated to the direct construction work and would not be recognized as legitimate costs if billed under the correct expense category. He/She therefore consulted Z3 Company about changing the expense category and, upon receiving confirmation that this was possible, decided to have the expenses billed under the altered category.

Regarding the cost category change for the distance meter, Mr./Ms. AC stated that a distance meter became urgently needed during construction. Since the distance meter was not included in the original budget, he/she feared that if it were added retroactively, the "preparation expenses" category where the distance meter was recorded would show a negative balance during settlement. This would look unfavorable and could lead to criticism from the Construction Department Manager, potentially damaging his/her evaluation. Therefore, he/she changed the cost category.

(c) Spread within the Company

Regarding the above inappropriate actions, Mr./Ms. AC conducted the email exchanges with the subcontractor alone, and there is no indication of collusion with other employees. However, Mr./Ms. AC stated that he/she had heard about the practice of requesting a business partner to alter the expense category on an invoice.

I Mr./Ms. AG

(a) Improper Conduct Identified

i Creation of a Pool Fund

Mr./Ms. AG, who was assigned to the East District of the Construction Department, Ground Engineering Division at the time, caused Z1 Company to overcharge our company by 100,000 yen for gasoline costs in the ●● project in November 2018. He/She then had Z1 Company pool this same amount. Mr./Ms. AG stated that the surcharge was pooled to cover gasoline expenses for the next project, and that he/she subsequently received gasoline equivalent to that amount from Z1 Company.

	Billing Month	Contractor Name	Overcharged Amount (¥)	Project Name
1	November 2018	Z1 Company	100,000	●● Project (Kitakanto Branch)

ii Cost Transfer Between Projects

In October 2018, Mr./Ms. AG had Z1 Company bill our company for gasoline expenses related to the ●● Construction Project managed by Mr./Ms. O, presenting them as gasoline expenses for a project managed by Mr./Ms. AG. Our company paid ¥6,000 (excluding tax) and processed the transfer.

	Billing Month	Vendor Name	Reallocated Amount (¥)	Expense Type	Original Construction Project Name	Replacement Destination Project Name
1	October 2018	Z1 Company	6,000	Gasoline Expenses	●● Construction (Kitakanto Branch)	Unknown

iii Other factual circumstances indicating inappropriate conduct, though not specific enough to identify particular projects

Mr./Ms. AG stated that, in addition to the above actions, ordering beverages from subcontractors and having them bill under different expense categories was common practice at all sites, but specific cases could not be identified.

(b) Circumstances and motives leading to the inappropriate conduct

i Regarding the creation of a slush fund

Mr./Ms. AG stated that although there are remaining tasks after construction is completed, expenses cannot be charged to that site once one month has passed since project completion. When there is a gap of two to three months until the next project, there is no place to charge expenses like gasoline costs. Therefore, he had Z1 Company pool the gasoline expenses from the previous project so that refueling could be done during the interval until the next project.

ii Regarding Cost Transfers Between Projects

Mr./Ms. AG stated that he/she had assumed it was acceptable because the amounts were small, that such cost transfers between projects were common practice, and that for amounts of this magnitude, he/she would not receive any specific instructions from the Construction Department Manager or others.

(c) Spread within the company

Mr./Ms. AG stated that, as described above, he/she performed cost transfers between projects at the request of other project managers. He/She also stated that creating reserve funds (pooling funds for gasoline expenses until the next project) and transferring beverage expenses to different cost categories were common practices within the company.

J Mr./Ms. AD

(a) Certified Improper Conduct

i Cost Item Transfers Within the Same Project

In June and November 2023, Mr./Ms. AD arranged for Z1 Company to reclassify expenses for beverages and year-end gifts to the prime contractor as fuel costs.

Additionally, in January 2025, he again had Z1 Company reclassify expenses by billing the cost of year-end gifts to the prime contractor as fuel expenses.

	Billing Month	Reclassification Details	Amount Reclassified (JPY, excluding tax)	Project Name
1	June 2023	Beverage Expenses → Fuel Expenses	25,000	●● Project (Hokuriku Branch)
2	November 2023	Year-end gift allowance → Fuel cost	42,000	●● Construction (Tohoku Branch)
3	January 2025	Year-end gift allowance → Fuel cost	55,000	●● Construction (Tohoku Branch)

ii Receipt of Money/Gifts

Regarding Table 3 above, Mr./Ms. AD brought back one of the year-end gifts he arranged at that time (equivalent to ¥11,000 (excluding tax)) and consumed it himself.

(b) Circumstances and Motivation Leading to Improper Conduct

Mr./Ms. AD was aware that site entertainment expenses could be used for gifts to the prime contractor, but he/she had not received any specific training on expense handling when he/she became site manager. Upon hearing from a Z1 Company representative, "Other sites do it this way (by reclassifying it as fuel expenses)," stated he/she reclassified the expense "with the mindset that if the vendor could do it, it was probably fine."

He/She did not provide a clear explanation for why he/she took home the year-end gifts and consumed them himself/herself.

(c) Spread within the company

Mr./Ms. AD stated he did not learn the expense reclassification method from other site managers or internal personnel. However, emails regarding expense reclassification with Z1 Company included another site manager in CC, suggesting the practice was shared without any particular recognition of its inappropriate nature.

K Mr./Ms. AI

(a) Certified Improper Conduct

i Receipt of Money or Goods

Mr./Ms. AI requested the purchase of receipts from Mr./Ms. ZA of Z11 Company on two separate occasions.

①Request dated January 9, 2019

Mr./Ms. AI sent the following email (excerpt) to Mr./Ms. ZA:

Regarding the receipt purchase request I made earlier, I was thinking it's about time to proceed. Should I mail the receipts addressed to the president to the company? Please advise.

Please set the amount to 100,000 yen.

During the committee's hearing with Mr./Ms. AI, he/she stated that he/she has no recollection of this email's content whatsoever. However, he/she personally mentioned that when he/she went golfing with the prime contractor and subcontractor, he/she paid out of pocket and had Mr./Ms. ZA purchase the receipts, receiving cash in return. He/She stated that he/she never had Z11 Company add this amount to their invoices when billing his/her site.

②Request dated July 23, 2019

Mr./Ms. AI sent the following email to Mr./Ms. ZA:

Good work today.

Regarding the final uniaxial compression test scheduled for August 8th, we will settle this month.

Please prepare and mail the invoice to the address below as soon as possible, ensuring it arrives by the end of this week.

Thank you.

Please purchase a receipt for 14,000 yen.

During the committee's hearing with Mr./Ms. AI, he stated that since this email pertains to matters at the ●● site, the receipt might be from when they went drinking at ●●. He/She has no recollection and cannot confirm whether Mr./Ms. ZA was present. He/She stated he/she believes Mr./Ms. ZA purchased the receipt and he received cash. While he/she doesn't know the benefit to Mr./Ms. ZA's side, he/she thinks he/she requested the purchase as a sort of thank-you gesture, considering Z11 Company made considerable profits at the ●● site.

Regarding the above emails ①and ②, when Mr./Ms. AI inquired with Z11 Company about the existence of any receipt purchase or cash exchange, Z11 Company responded that neither fact occurred.

Based on the emails indicating a request to purchase receipts with specified amounts, and Mr./Ms. AI's statement that he/she believes he/she received cash despite his/her memory being vague, this committee determined that Mr./Ms. AI likely requested Z11 Company to purchase the receipts and received a total of ¥114,000 in cash.

ii Reassignment of Expense Items Within the Same Project

Mr./Ms. AI requested subcontractors at various construction sites to change the expense items on their invoices to different categories before submitting them to our company, as detailed below.

	Billing Month	Contractor Name	Reclassified Amount	Reclassified Amount (¥/Excluding Tax)	Project Name
1	July 2023	Z1 Company	Mid-Year Gift Ham → Miscellaneous Oil Seeds	30,000	●● Construction (Tohoku Branch)

2	November 2023	Z1 Company	Year-End Gift Ham → Miscellaneous Oil Seeds	22,800	●● Construction (Tohoku Branch)
3	May 2021	ZZ13 Company	Temporary Building Maintenance Expenses → Machinery Damage Fees	23,600	●● Construction (Tohoku Branch)

(b) Circumstances and Motives Leading to Improper Conduct

i Regarding the reclassification of expense items within the same project

Regarding the transaction where summer and year-end gift hams were billed under separate expense items, Mr./Ms. AI stated that while there was no particular reason, every year around the time for summer and year-end gifts, Z1 Company would send gift catalogs via email. At that time, they would propose something like, "Should we bill this under a separate expense item?" Without giving it much thought, he/she agreed to the proposal, resulting in the items being billed under separate expense items.

Regarding the transaction where the aforementioned temporary building maintenance expenses were billed under a different expense category, he/she stated that the temporary building maintenance costs were higher than anticipated, causing the budget to be exceeded. Under ZZ3 Company's rules, exceeding the budget requires splitting the expense category and reordering, but he/she found this procedure troublesome, so he/she switched it to machinery depreciation.

ii Regarding the Purchase of Receipts

Mr./Ms. AI stated that his/her memory is vague regarding what he/she intended to use the cash received from purchasing the receipts for, or what it was actually used for.

(c) Internal "Spread"

Regarding the above inappropriate actions, email exchanges with the cooperating company were conducted solely by Mr./Ms. AI, and there is no indication of collusion with other employees. However, as mentioned above, he/she stated that, for example, gift catalogs were sometimes emailed from the cooperating Z1 Company, and they would propose changing expense categories. He/She also stated that since he/she was approached with such proposals, he/she believes other branch managers were likely approached as well.

L Mr./Ms. AF

(a) Involvement in the Certified Improper Conduct

Mr./Ms. AF, of the Construction Department, Construction Division, Ground Engineering Headquarters, was also subject to the previous internal investigation but was not specifically mentioned in that report. Based on Mr./Ms. AF's self-report during that investigation and interviews with him, the following improper conduct with X Company was confirmed. In all cases, Mr./Ms. AF was not the construction site manager at the relevant site at the time but acted under the instructions of the construction site manager, Mr./Ms. C.

i Receipt of money and valuables and involvement in the transfer of expense items within the same construction project (transactions under C's 2(1)(a)(i)(i)① and (iii)③)

At the ●● Construction, ●● Construction, and ●● Construction sites (Yokohama Branch), from around September 2020 to September 2021, Mr./Ms. AF repeatedly mailed receipts to Company X for beverages, alcoholic beverages, snacks, etc., provided to seamen for marine construction work at his/her own expense, had them purchased, and received cash equivalent to the receipt amounts by mail (Total cash amount of ¥341,500 as self-reported in item ① above).

Additionally, regarding the transaction (above ③) where X Company was instructed to issue invoices under different names than the actual goods delivered to Soil Technica for procuring beverages for the seafarers working on the offshore construction project, he/she was involved by placing orders by phone with the X Company representative.

ii Involvement in cost transfers between projects (transactions under C's 2(1)(a)(i)(ii)②)

Mr./Ms. AF, while not involved in the cost transfer described in point ② above regarding the January 2024 actions, had received instructions from Mr./Ms. C around September 2020 and had performed the cost transfer processing.

(b) Circumstances and Motives Leading to Improper Conduct

i Receipt of money and goods, and involvement in the transfer of expense items within the same project (transactions under C's 2(1)(a)(i)(i)①and (iii)③)

Mr./Ms. AF was instructed by Mr./Ms. C, who was the construction site manager, to provide sailors with beverages, alcoholic beverages, snacks, etc., on a regular basis approximately once a week. Mr./Ms. C also informed Mr./Ms. AF that for the portion of these expenses paid out of his/her own pocket, cash would be returned to him/her at a later date by sending receipts to X Company. Furthermore, Mr./Ms. C informed Mr./Ms. AF that instead of purchasing beverages and alcoholic beverages out of his/her own pocket, it was possible to place orders directly with X Company and have them delivered to the site.

Mr./Ms. AF stated that in 2020, having been with the company for only about two years, he/she was unfamiliar with accounting procedures. He/She believed sending receipts to X Company was part of the formal expense reimbursement process for the company and processed them without question, following the instructions of his/her senior colleague, Mr./Ms. C.

However, around 2021, during the settlement for the aforementioned construction work, Mr./Ms. C informed him that X Company was billing the company double the amount for the purchase of the receipts. This led Mr./Ms. AF to realize that the accounting procedures he/she had been following might have been inappropriate. Furthermore, Mr./Ms. AF stated that, as a junior colleague at the time, he/she hesitated to make suggestions or raise concerns to his/her senior colleague, Mr./Ms. C. Consequently, he/she did not specifically request Mr./Ms. C to correct the processing or point out the issue afterward.

ii Involvement in the cost transfer between projects (the transaction described in Mr./Ms. C's 2(1)(a)(i)(ii)(2))

Mr./Ms. AF stated that he/she was never informed by Mr./Ms. C about the meaning or details of the processing and was unaware that it constituted a cost transfer between projects.

(c) Spread within the company

Mr./Ms. AF primarily received explanations of the methods described in points ①and ③above from Mr./Ms. C. While his/her memory is not entirely clear, he/she indicated it is possible he/she also received explanations from other senior employees. Mr./Ms. AF stated he/she did not specifically explain these methods to anyone else.

M Mr./Ms. AJ

(a) Improper Conduct Found

i Cost Transfer Between Projects

Mr/Ms.AJ, then Manager of the Soil Improvenent Engineering Section at the Hokkaido Branch, instructed Mr./Ms. N of the Engineering Department, Soil Improvenent Business Division, in August 2020, to bill the total survey costs of ¥1,000,000 (excluding tax) incurred for ZZ4 Company under the ●● Project to the ●● Project, another construction site, thereby transferring the costs.

	Billing Month	Contractor Name	Reallocated Amount (¥)	Cost Type	Original Replacement Work Name	Replacement Destination Project Name Name
1	August 2020	ZZ14	1,000,000	Survey Cost	●● Construction (Hokkaido Branch)	●● Construction (Hokkaido Branch)

(b) Circumstances and Motives Leading to Improper Conduct

Mr./Ms. AJ stated that the practice of charging expenses incurred at one construction site to another site (cost shifting) had been in place for approximately 20 years since he/she became a construction site manager. He/She recalled being instructed on this method by his/her senior colleagues at the time.

In April 2019, after he/she became the section chief in charge of the Hokkaido Branch Groundwork Department, he/she understood that as section chief, he/she had to achieve the gross profit margin targets for each project. The Hokkaido Branch handled many small-scale projects, which meant many sites had tight budgets. Therefore, he/she explain that he/she took these actions when adjustments were unavoidable.

Additionally, I stated that, besides cost reallocation, changing the billing category for beverages at sites had been practiced for about 20 years. He/She recall being instructed on this practice by a senior colleague at the time.

(c) Spread within the company

Mr./Ms. AJ stated that the practice of charging costs incurred at one construction site to another site (cost transfer) had been in place for about 20 years, since he/she became a construction site manager. He/She recalled being instructed on this method by his/her seniors at the time.

Mr./Ms. AJ also instructed Mr./Ms. N of the Construction Department, Construction Division, Ground Engineering Headquarters regarding cost transfer.

N Mr./Ms. AN

(a) Improper Conduct Found

i Cost Transfer Between Projects

In January 2022, Mr./Ms. AN of the Construction Section, Construction Department, Ground Engineering Division, transferred costs totaling ¥2,657,827 (excluding tax) incurred for subcontracting fees, etc., to Z11 Company and repair fees, etc., incurred for Tokyo Machine Center, to other construction sites: the ●● Project and the ●● Project.

Note that the cost transfer related to repair expenses involved Tokyo Machine Center's involvement, but the details are as described in Section 3 below.

	Billing Month	Contractor Name	Reallocated Amount (¥)	Type of Expense	Original Replacement Work Name	Replacement Destination Project Name
1	January 2022	Z11 Company Soil Technica Tokyo Machine Center, etc. , etc.	2,657,827	Subcontracting Fees, Repair Fees, etc.	●● Construction (Tohoku Branch)	●● Construction and ●● Construction (Tohoku Branch)

(b) Circumstances and motives leading to the inappropriate conduct

According to Mr./Ms. AN, the ●● Construction project was originally managed by another construction site manager. However, after the project was completed, non-conformities were discovered, necessitating rework. Around December 2021, he/she was suddenly assigned to take charge of the project. Given the project's modest scale and the fact it was a redo, the budget was tight. His/Her supervisor at the time instructed him/her to bill certain costs incurred on this project to other construction sites: the ●● Construction Project and the ●● Construction Project.

Mr./Ms. AN stated that while he/she recognized this was not an appropriate course of action, he/she carried out the cost transfer between projects based on his/her supervisor's instructions at the time.

(c) Spread within the company

Mr./Ms. AN stated that he/she performed the cost transfer between projects based on the instructions from his/her supervisor at the time, as described above.

(3) Other Findings Regarding the Spread of Improper Conduct

a Responses to the Anonymous Questionnaire (See Appendix 2: "Analysis of the Anonymous Questionnaire")

The inappropriate practices specifically identified and confirmed by this Committee—cost transfers between projects, cost item transfers within the same project, and the receipt of pool funds and valuables—are limited to those described above. As previously explained, the individuals involved in these inappropriate practices stated during hearings that such transactions had been occurring for a considerable period. Furthermore, the anonymous survey conducted by this committee yielded responses suggesting that these improper practices were indeed widely and longstanding within the Company's Soil Improvenent business. The responses shown below have been partially summarized and abstracted.

(a) Regarding expense treatment for providing beverages, etc.

In Anonymous Survey Q.2(2), regarding the question of how expenses were covered when providing beverages or refreshments to workers on-site as a site manager or supervisor for Soil Improvenent work, out of 130 responses, only 46 (35%) stated that the costs were formally processed as labor management expenses or entertainment expenses for the construction site. Even excluding the 29 responses (22%) indicating personal payment, the remaining 55 responses (42%) indicated improper handling such as misclassifying expenses, using pooled funds, or purchasing receipts. Noteworthy responses included the following:

・Purchased beverages at home centers, etc., and processed receipts under the name of necessary site supplies.

・Previously, only receipts totaling ¥8,000 or less required attachment, so for smaller amounts, they were processed by changing the expense category during receipt handling.

・Receipts were sent to Company X per superior's instructions (how they were processed is unknown).

Regarding the timing of these practices (Question Q.2(3)), responses ranged from "approximately 20 to 30 years ago" to "5 years ago/2 years ago," "2002 to 2018," and "2020 to 2021," spanning from long ago to recent times.

(b) Expense Processing Beyond Refreshments

Regarding the question (Q.2(5)) asking if respondents had encountered difficulties processing business expenses related to Soil Improvenent projects beyond refreshments, out of 204 responses, 25 (12.25%) indicated they had. However, when asked specifically about the types of expenses and reasons for difficulty processing them(Q2.(6)), 28 responses were received. Among these, the following responses are noteworthy:

・Expenses exceeding entertainment allowances were incurred during hospitality with the prime contractor.

・Believed entertainment expenses could not be used when the budget was insufficient or not allocated.

・Issues with handling internal company gatherings.

When asked how they handled these situations (Q2.(7)), 29 responses were received.

Among these, 17 respondents (58%) stated they paid out of pocket. Four respondents indicated they covered the costs by reallocating expense categories. Other responses included: "Settled using transportation expenses, etc.", "Handed the receipt to the site manager", "Left it to the discretion of the construction section chief", and "Processed it by reallocating expenses, but paid the inflated amount to the vendor at that time". All 29 responses indicated processing through such non-standard methods.

Regarding the timing of these actions, responses included "before 2008," "about 9 years ago," and "about 5 years ago," indicating that inappropriate practices occurred over a broad period.

(c) Cost Reallocation

Regarding the question (Q.2(10)) asking if they had ever considered diverting funds from Soil Improvenent projects to other projects when the project was likely to exceed the initially anticipated profit, 203 responses were received.

Of these, 21 (10.34%) indicated they had considered such a transfer, while 25 responses provided reasons for considering it. Noteworthy reasons included the following:

・It was anticipated that there would be no available funds until the next project site was secured, as it seemed likely to take time.

・Because explaining the discrepancy between budget and actual costs to superiors would be difficult.

・Because I thought the next project's budget would have more leeway.

・To address discrepancies in profit margins or negative items between adjacent projects.

・Since supervisors had been performing cost item transfers since the respondent joined the company (author's note: 38 years ago), the respondent also did it.

Regarding the question (Q.2(12)) about whether respondents had actually performed cost reallocations, out of 25 responses, 13 (52.00%) answered "Yes." Noteworthy responses for reasons actually performing cost reallocations include the following:

・To reduce strain on the next project site, if a previous site seemed likely to generate profit, consumables and other items were purchased using the previous site's funds for use on the next site.

・It was routine practice. To compensate for poor-performing projects.

・Company (supervisor) instructions.

Additionally, 10 respondents answered the question (Q.2(15)) about how they learned such cost transfer methods. All responses indicated they were taught by someone else within the company: superiors, seniors, colleagues, or department managers at the time.

(d) Regarding the spread of other inappropriate practices within the company

When asked whether they had personally witnessed or heard about these improper accounting practices within the company (Q.4(1)), 67 out of 980 respondents (6.84%) answered "Yes." Among these, the following responses are noteworthy:

・I was asked multiple times if it was acceptable to purchase items using the current project's surplus budget after completion, since the next project's budget was tight.

・The purchase cost of a weighing scale was processed as an office supply expense (e.g., copy paper purchase) under the miscellaneous supplies budget instead of the preparatory work budget where it should have been recorded, due to lack of budget. Sales personnel have nearly exhausted the construction project's entertainment and miscellaneous expenses.

・At a supervisor's instruction, payments have been processed through other sites, or payments for items belonging to other sites have been processed.

b Hearing Results from President Y of Company X

Furthermore, President Y of Company X, one of the subcontractors involved in improper practices such as pool funds, cost transfers between projects, and expense category transfers within the same project, stated the following during this committee's hearing regarding the extent of expense category transfers in transactions with our company:

・Even before establishing X Company, while working at another company in the same industry, he/she had dealings with the former Fudo Construction and the former Tetra. The former Fudo Construction was about 30 years ago, and the former Tetra was even earlier than that. He/She became acquainted with the former Fudo Construction because he/she was introduced by another company at a certain site.

・In the past, items like sports drinks and canned coffee couldn't be claimed as expenses. Requests like "Bring these over, but bill them under something else" marked the beginning of this practice (expense category switching). Every company did it.

・Furthermore, the apartments and dormitories where workers stayed didn't have refrigerators, TVs, or radios. Since the company wouldn't approve purchasing these as expenses, we were sometimes asked to include them and bill for something else instead.

・After offshore projects finished, requests came to bring beer or shochu to reward workers, asking us to bill it separately. Or, for barbecues at the Heiwajima office, we were asked to bring alcohol and seafood, with instructions to bill it under a specific site.

・Everyone who moved up from the field did it. Since everyone was doing it, those below were watching. Younger workers mostly worked under the senior site managers. These younger workers, told by the manager, would call me to place orders. The number was unfamiliar, but answering the call revealed it was a young worker from Fudo Tetra. So, I registered the number, and we gradually learned each other's names.

・At Fudo Tetra, the only people who submitted gift certificates were those named in the (internal investigation committee) report. I thought they were being distributed to the prime contractor and never dreamed they were being cashed in. I did submit beer vouchers and such to other people. I was never asked to submit receipts for drinking parties at Fudo Tetra.

・Fudō Tetra's Civil Engineering Division never proposed similar transactions, and I never engaged in them. I did have dealings with the former Tetra, but regarding replacements or pools, I recall one instance about 30 years ago; I haven't done any since then.

・I heard from Fudo Tetra employees that they were told internally not to make profits exceeding 5%. Because of this, when told "the next site is struggling with losses," I did suggest things like "if you're making money on this site, you should increase (expenses) here and now."

・Once, at Fudo Tetra's request, I urgently procured supplies and delivered them to the site that same day. However, I was severely reprimanded by the purchasing department because the invoice exceeded 500,000 yen.
They asked why we billed over ¥500,000 when exceeding that amount makes procedures so much more complicated. It made me angry because we were just rushing to fulfill the site manager's request.

・Regarding expense category transfers and pooling, I managed them in a notebook, but I disposed of all processed items, so no records remain.

(4) Analysis by This Committee on the Scope of Improper Conduct

Based on the facts newly uncovered by this committee's investigation regarding the inappropriate conduct and its scope,

we can determine the following regarding the circumstances under which this series of inappropriate conduct within our company was perpetuated and became widespread.

A The Start Date and Spread of Improper Conduct

Cost transfers between projects and expense category transfers within the same project were described by many long-tenured managers and veteran project managers as having been practiced since their own time of joining the company. While pinpointing a precise starting point is difficult, it is recognized that these inappropriate practices were traditionally never corrected and have been perpetuated to the present day.

During the hearings conducted by this committee, for example, it was stated: "Cost transfers and expense category transfers have been done for about 20 years. I was taught these methods by my seniors at the time.When I became a section chief, I intended to make adjustments in the same way." "I taught juniors the method of having Company X purchase receipts so they wouldn't have to pay out of pocket." "It's been done for a long time, and even after I became the responsible section chief, I consulted with the branch manager and also gave instructions to the branch manager." "We did the same as the people above us did."

Furthermore, as seen in the interview results with President Y of Company X, there were instances where subcontractors reinforced the continuation of inappropriate practices within the company by suggesting things like, "Other site managers are doing it this way too," and the site managers complied. This led to the practices being further perpetuated and spread.

B Management Involvement

Cost transfers between projects were often carried out with the involvement of the branch's construction department manager or section chief, who managed multiple sites and understood their status. Indeed, it has been confirmed that branch managers and section chiefs instructed site managers and subcontractors to perform cost transfers or pool budgets to avoid losses on specific projects and level out overall profits.

It is only natural that construction site managers, having witnessed or received direct instructions from department heads or section chiefs engaging in cost transfers between projects—such as requiring subcontractors to maintain reserve funds—to avoid losses at their assigned sites, would themselves develop a mindset to prevent losses on the projects they oversee. As a result, cost transfers between multiple concurrent sites occur under management involvement. Furthermore, project managers themselves engage in cost transfers with projects they will oversee next, and cost transfers are also implemented through collusion between project managers.

Furthermore, the cost transfers between projects to adjust profits and losses, carried out with management involvement, were particularly evident in the repair cost transfers conducted through the Tokyo Machine Center, as described later.

C Spread at the Site

During the committee's hearings, construction site managers unanimously stated that they had received no special training from the company on expense handling procedures when they became site managers (and began managing the site budget).

and managing the site budget)had received no special training from the company on how to handle expenses. They all stated that they learned the job of construction site manager by gaining experience as construction supervisors on site, observing the work of the site manager at that location, or being taught by the site manager. They observed cost reallocations and expense category changes performed by the construction site managers at the sites they were assigned to and simply memorized those methods. Alternatively, after becoming construction site managers themselves, they learned improper expense handling practices without recognizing them as such, simply accepting whatever methods subcontractors suggested. It is judged that these improper practices have been continuously passed down and spread within our company's Soil Improvenent projects.

Indeed, numerous individuals who have been with the company for over 30 years stated in interviews or anonymous questionnaires that such cost reallocations and expense category changes had been practiced since their time of joining.

During this committee's hearings, statements such as the following were made: "I never received any specific training on expense processing methods, and since the person in charge at Z1 Company taught me the transfer method, I performed it without any particular awareness that it was inappropriate," and "From the time I joined the company, I was never specifically taught proper accounting procedures, and I didn't have the sense that transfers were that bad."

D Dysfunction of Recurrence Prevention Measures Following the 2022 Case [27]

After the 2022 case was uncovered, our company disseminated its recurrence prevention measures (see Chapter 3, Section 1, Item 1(1)) on July 25, 2022 , but these measures cannot be said to have been effective. Among the inappropriate acts confirmed by this Committee, 22 cases occurred after the dissemination of the aforementioned recurrence prevention measures, involving a total amount of ¥2,261,412.

According to the anonymous questionnaire, regarding the 2022 cases, when asked if respondents were aware of the 2022 cases in the first place(in response to Q.6(1)), only 291 out of 938 respondents answered that they knew about it(31.02%) out of 938 responses. 298 respondents (31.77%)answered that they had heard of it but did not know the details, while 349 respondents (37.21%) answered that they did not know about it.349 respondents (37.21%) answered that they were not aware of it.

Furthermore, regarding the question asking whether respondents believed recurrence prevention measures had been implemented following the 2022 case (Q.6(2)), 341 respondents (36.39%) answered yes, while 596 respondents (63.61%) answered no, significantly outnumbering the yes responses. It must be said that employees also do not perceive the recurrence prevention measures implemented following the 2022 incident as having been effective.

Regarding the question asking why the 2024 case occurred despite the 2022 case (Q.6(4)), 358 responses (38.16%) indicated that while the 2022 case was communicated internally, it was not perceived as a particularly serious matter within the company. It is noteworthy that 423 responses (45.09%).

Noteworthy responses included the following:

[27] The inadequacy of the recurrence prevention measures themselves is discussed in Chapter 5, Section 2. The following discusses the dysfunction of recurrence prevention measures based on responses to the anonymous survey.

・They were not made known to all employees. Also, people thought it was someone else's problem.
・I believe only disciplinary actions were communicated, not the countermeasures themselves.
・I feel that the fundamental issues haven't been addressed.
・Although I had just joined the company, there was no mention of this in any ethics training or similar programs. Past internal newsletters also made no reference to it.
・Because it was one-way communication (education), the essential points weren't actually conveyed.
・I recall disciplinary actions being taken against those involved, but I don't believe specific recurrence prevention measures were ever discussed or implemented.
・Even after the 2022 incident, there hasn't been sufficient explanation to employees about what actions are unacceptable. For example, before this compliance issue, someone in a position of authority told me (the respondent), "Your site is profitable, so cover the costs for the office we share with multiple projects," or regarding management engineers, they said, "We're covering the costs for this site, so can you (the respondent) use them freely on your site?" Each time, I explained that this was unacceptable.
・While there may have been some rule changes following the 2022 incident, I believe attitudes won't change unless there's education reaching all employees explaining why these actions are unacceptable. Simply adding more unnecessary rules won't change anything.

Regarding the perception of the 2022 case, it can be said that many employees tend to view it as someone else's problem. It does not appear that compliance training, intended as a recurrence prevention measure, has taken root.

(5) Summary

As stated in (4) above, the practices of cost transfers between projects, expense category transfers within the same project, and the pool fund method have been observed and perpetuated in our company's Soil Improvenent business for at least 20 to 30 years. Individuals who are now managers were also involved in these practices. Employees, even when entrusted with site manager roles, lacked opportunities to receive training on proper accounting procedures for on-site expenses. Instead, they learned by observing improper transfers performed by seniors or supervisors, or were even instructed to perform transfers by managers such as department heads or section chiefs. In this way, inappropriate practices spread both vertically through hierarchical relationships and horizontally among site managers, persisting from the past to the present.

Thus, cost transfers between projects, item transfers within the same project, and pool funds. Some individuals, accustomed to a system where cost transfers made it impossible for the company to know what was actually purchased, crossed further ethical lines. They went beyond merely purchasing items for business use or balancing income and expenditure. They engaged in more egregious acts, such as making personal purchases through subcontractors or having them buy gift certificates to embezzle the funds.

While the purchase of personal items and the embezzlement of cash or gift certificates differ significantly in severity from improper practices involving the improper handling of legitimate expenses, these too can be assessed as a continuum of improper conduct stemming from the prevalence and tolerance of cost transfers between projects, cost category transfers within the same project, and pool funds.

(6) Regarding Acts Potentially Leading to More Serious Compliance Issues

Regarding the ¥1,500,000 pool fund between Mr./Ms. R and ZZ4 Company, as determined in Chapter 4, Section 1, Item 2(2)(a), Mr./Ms. R stated he/she does not recall its use or whether it was settled. Additionally, regarding the pool funds totaling ¥7,000,000 to Z11 Company or ZZ8 Company by Mr./Ms. S, as determined in Section 2(2)(c) of the same chapter, Mr./Ms. S stated he/she diverted the funds for expenses such as preliminary investigation costs at other sites. However, no records exist detailing which specific sites or how the funds were diverted, making it impossible to verify.

The fact that pool funds amounting to several million yen remain unaccounted for indicates that our company had an environment where it was possible to create and spend several million yen in unaccounted funds. This means that such large sums existed in a situation where they could potentially be used as slush funds, possibly for illegal purposes.

Furthermore, it must be noted that Mr./Ms. R's receipt of pool funds and valuables from ZZ5 Company occurred in 2023, after the recurrence prevention measures for the 2022 case had been communicated.

While the cost transfers between projects, the reallocation of expense items within the same project, the pool funds, and the receipt of money and valuables—all of which this committee has determined thus far—are indisputably problematic and inappropriate acts in themselves, the fact that pool funds amounting to several million yen remain unaccounted for is an act that could lead to more serious compliance issues. This fact, combined with the occurrence of such actions even after the recurrence prevention measures following the 2022 case were widely communicated, warrants particular emphasis here.

3 Inappropriate Practices Involving Cost Transfers Between Projects and Pool Funds by Tokyo Machinery Center

During this committee's investigation, suspicions arose regarding a type of improper conduct involving cost transfers between projects and pool funds, among other issues, allegedly involving the Machine Center (hereinafter referred to as the "Machine Center") belonging to the Ground Engineering Division Management Department and Machinery Department. Consequently, an investigation was conducted, which confirmed the improper conduct described below.

Furthermore, during its investigation, the Internal Investigation Committee discovered emails suggesting the Tokyo Machine Center's involvement in improper conduct. On March 14, 2025, the Committee conducted interviews with three individuals: Mr./Ms. U, the Tokyo Machine Center Manager; Mr./Ms. ●●, the Manager of the Machinery Section; and Mr./Ms. ●●, a member of the Maintenance Section. However, the Internal Investigation Committee Report makes no mention of the improper conduct involving the Tokyo Machine Center.

(1) Overview and Main Business Operations of the Machine Center

The Machine Center is a department belonging to the Company's Ground Engineering Division. Its main responsibilities include: allocation of construction equipment and machinery operators for ground engineering projects; maintenance, repair, and external leasing of construction machinery; management of maintenance revenue; maintenance records (including machinery history); and outfitting, dismantling, and lay-up of work vessels.

The Machine Center consists of the Tokyo Machine Center and the Osaka Machine Center. The former primarily handles construction projects in Eastern Japan, while the latter handles projects in Western Japan (hereinafter, "Machine Center" refers to both the Tokyo Machine Center and the Osaka Machine Center).

The Machine Center belonged to the Leasing Division of our subsidiary, Soil Technica, until the end of March 2023. However, effective April 1, 2023, our company absorbed and succeeded Soil Technica's construction machinery rental business and related operations through an absorption-type split. Consequently, the Machine Center now belongs to the Management Department and Machinery Department of our company's Soil Improvenent Business Division.

(2) Cost Billing Relationships for Ground Improvement Projects and the Machine Center

When the Company or Soil Technica performs Soil Improvenent work, the site manager for each project rents construction machinery from the Machine Center to carry out the work. Typically, the budget for each Soil Improvenent project includes provisions for machinery usage fees (costs incurred by the Machine Center when lending construction machinery to our company or Soil Technica) and repair fees (costs incurred by the Machine Center when performing repairs on construction equipment or machinery at our company's or Soil Technica's construction sites).

The Machine Center has a system in place whereby it bills the Company or Soil Technica for machinery usage fees for each Soil Improvenent project. Additionally, if repairs are performed by the Machine Center, it bills for those repair costs.

Conversely, if construction equipment provided in advance by the Machine Center to a construction site as spare parts is not used at that site, the Machine Center purchases that equipment from the Company or Soil Technica. In such cases, the Company or Soil Technica charges the Machine Center for the purchase cost.

Thus, for each Soil Improvenent project, the Machine Center both charges our company or Soil Technica for machinery usage fees and repair costs, while simultaneously being charged by them for the purchase cost of construction equipment.

Until March 2023, since the Machine Center belonged to Soil Technica, for projects contracted by Soil Technica, processing was limited to internal vouchers within that company. However, for projects contracted by our company, Soil Technica, to which the Machine Center belonged, would bill our company for machinery depreciation and repair costs.

(3) Interactions Between the Ground Improvement Department Manager, Construction Site Manager, and the Machine Center

As described above, while the Machine Center billed our company or Soil Technica for machinery depreciation and repair costs for each Soil Improvenent project, it also received invoices for the purchase of construction equipment. Consequently, daily interactions regarding mutual billing and other matters occurred between the Machine Center and the Construction Department Manager responsible for managing projects at each site or the Construction Site Manager in charge of the relevant project.

(4) Improper Practices Regarding Cost Reimbursement and Pool Funds Related to Machine Center Repair Costs

Based on interviews and documents, the Committee suspected improper conduct involving the Machine Center. To clarify this point, the Committee conducted interviews and requested document submissions from Mr./Ms. U, the Tokyo Machine Center Manager, as well as relevant Construction Department Section Chiefs and Construction Site Managers.

As a result, certain construction department managers and site managers from our company and Soil Technica, after consultation and coordination with the Machine Center, implemented the following:

①Transferring costs between projects (previously classified as inter-project cost transfers)
②Pooling funds at the Machine Center from repair costs at profitable sites or machinery damage fees not incurred due to smooth project progress, to prepare funds for later expenditures like repair costs at other sites (previously classified as Pooling Type)
③Cases where the Tokyo Machine Center and the Construction Department Manager or Construction Site Manager discretionarily adjust whether to claim repair costs incurred at construction sites and the amount claimed (Discretionary Claim Adjustment Type).

These actions were carried out by Construction Department Section Chiefs or Construction Site Managers requesting the Machine Center after assessing the profit and loss situation at each site, and the Machine Center cooperated with these requests from the Section Chiefs or Site Managers.

The inappropriate acts determined by this committee are as follows:

A. ①Cost Transfers Between Projects

(a) Cost transfers by Mr./Ms. A

Around February 2020, Mr./Ms. A instructed Mr./Ms. U of the Tokyo Machine Center to transfer ¥190,000 (excluding tax) in repair costs (agitation blade expenses) incurred during the ●● Project to another construction site (●●Project).

	Billing Month	Reallocation Amount (¥)	Type of Expense	Original Project Name	Replacement Destination Project Name
1	February 2020	190,000	Repair Cost (Blade Replacement) Mixing Blade Costs)	●● Construction (Chiba Branch)	●● Construction (Chiba Branch)

Around February 2021,received an invoice from Tokyo Machine Center for ¥520,000 (excluding tax) regarding repair costs for the "●● Project." However, he/she instructed Mr./Ms. U of Tokyo Machine Center to cancel that invoice. To offset it, he/she processed a fictitious purchase of construction equipment for the same amount under the "●● Project." He/She then transferred the ¥520,000 (excluding tax) repair cost, which should have been processed under that project, to the "●● Project." Subsequently, Mr./Ms. A emailed Mr./Ms. H, the site manager of the project to which the costs were transferred, to inform him/her of the above processing.

	Claim Month	Reassigned Amount (¥)	Type of Expense	Original Project Name	Replacement Destination Project Name
1	February 2021	520,000	Repair Cost	●● Project (Chiba Branch)	●● Construction Project (Chiba Branch)

Furthermore, as described in (ii) below, Mr./Ms. A, as the Construction Department Manager of the Tokyo Head Office Groundwork Department, instructed Mr./Ms. I, the Construction Site Manager, to create a pool fund for repair costs related to the Tokyo Machine Center for projects within his/her jurisdiction.

(b) Cost Reallocation by Mr./Ms. AN

In January 2022, regarding the "●● Construction Project," Mr./Ms. AN instructed Mr./Ms. U of the Tokyo Machine Center to bill the Tokyo Machine Center for repair costs and other expenses totaling ¥76,607 (excluding tax) and processed the transfer.

	Billing Month	Reallocation Amount (¥)	Type of Expense	Original Project Name	Replacement Destination Project Name
1	January 2022	76,607	Repair Cost	●● Construction (Tohoku Branch)	●● Construction (Tohoku Branch)

(c) Cost Reallocation by Mr./Ms. AO

Around November 2020, Mr./Ms. AO, then Manager of the Construction Department, Soil Improvement Division (Chubu Branch, Osaka Branch, Kyushu Branch), instructed the Osaka Machine Center to bill the ●● Construction project for ¥1,400,000 (excluding tax), which was part of the repair costs incurred during the ●● Construction project.

	Billing Month	Reallocated Amount (¥)	Type of Expense	Original Project Name	Replacement Destination Project Name
1	2020 November	1,400,000	Repair Cost	●● Construction (Chugoku Branch)	●● Construction (Chugoku Branch)

B. ②Pool Fund Reserve Type

(a) Pool Fund Preparation by Mr./Ms. A

Mr./Ms. A initially set aside a pool fund totaling ¥16,000,000 for approximately 8 days of operation around December 2021 in relation to the ●● Construction Project.

The construction vessel damage fee (daily rate of ¥2,000,000) was anticipated. However, due to the approval of the rental suspension request submitted by the individual, a reduction of ¥4,000,000 for two days should have been applied. Tokyo Machine Center instructed the construction site to bill an inflated amount of ¥16,000,000 for eight days, creating a pool fund of ¥4,000,000 (the purpose and timing of the pool fund's use remain unknown).

	Billing Month	Pooled Amount	Overcharged Amount (¥)	Project Name
1	Around December 2021	Tokyo Machine Center	4,000,000	●● Construction (Tokyo Head Office)

(b) Pool Fund Preparation by Mr./Ms. I

Around September 2020, Mr./Ms. I, under Mr./Ms. A's instructions and after consulting with Mr./Ms. U, had Tokyo Machine Center issue a fictitious invoice for 3,400,000 yen (excluding tax) as repair costs for the ●● construction project (of which 1,600,000 yen was a fictitious charge at that point), and paid the same amount. At the time of construction settlement, the repair costs and other expenses that should have been paid from the site to the Tokyo Machine Center amounted to ¥1,800,000.

However, since the 1,400,000 yen budgeted for factory purchase payments from the site to Tokyo Machine Center was ultimately unused, this surplus amount was also included. Consequently, a total of 3,400,000 yen was ultimately invoiced as a fictitious charge (the purpose and timing of the pooled funds' use remain unclear)

	Claim Month	Pooled Amount	Overbilled Amount (¥)	Project Name
1	Around September 2020	Tokyo Machine Center	1,600,000	●● Construction Project (Chiba Branch)

Furthermore, around April 2022, regarding the ●● Construction Project, Mr./Ms. I communicated to Mr./Ms. A that there was unused capacity within the budget for heavy machinery purchase funds of ¥884,046 allocated between Tokyo Machine Center and the project, and that it was possible to transfer this cost to another site. However, later, anticipating a deficit at the ●● Construction project he/she was supporting, he/she consulted with Mr./Ms. A and Mr./Ms. U. They then arranged for the aforementioned ¥880,000 purchase funds—which Tokyo Machine Center should not have billed—to be fictitiously charged to the ●● Construction project. In exchange, they arranged for Tokyo Machine Center not to bill repair costs, etc., for the ●● Construction project (the purpose and timing of the pooled funds' use remain unclear)

	Billing Month	Pooled Amount	Overbilling Amount (¥)	Project Name
1	Around April 2022	Tokyo Machine Center	880,000	●● Construction (Tokyo Head Office)

C. ③Discretionary Claim Adjustment Type

Additionally, between Mr./Ms. U of Tokyo Machine Center and the Construction Department Manager or Construction Site Manager, discretionary interactions routinely occurred regarding repair costs and other expenses arising at construction sites. Depending on the budget situation of the construction site and the request of the Construction Department Manager or Construction Site Manager, decisions were made regarding whether to bill the site, reduce the amount billed, or offset the costs against purchase expenses. This determined the existence and amount of billing [28].

(5) Circumstances and Motives Leading to Improper Conduct

A. Background and Motivation from the Construction Department Manager/Construction Site Manager Side

Construction Department Section Chiefs or Construction Site Managers primarily requested cost transfers and pool fund creation to level out site profits and losses, as follows.

(a) Circumstances and Motives Leading to Mr./Ms. A's Improper Conduct

Mr./Ms. A stated his motive was that when repair costs arose at a site with a tight budget, he/she would transfer those costs to other sites for that particular site's benefit. He/She did this by requesting transfers from the Machine Center, thereby leveling profits across projects and securing performance.

[28] The term "reallocation" is used in emails between the Machine Center and the Construction Department Section Chief/Construction Site Manager. The Machine Center personnel, Construction Department Section Chief, and Construction Site Manager state that not all instances of this term refer to inappropriate cost reallocations or expense category transfers. It also includes cases where it was used with the intent to charge repair costs or loss fees to the site.

They also state that they have never been refused a request for cost reallocation.

(b) Background and Motivation Leading to Mr./Ms. AN's Improper Conduct

Mr./Ms. AN stated that, under tight budget constraints, his/her supervisor at the time instructed him/her to have certain construction costs billed to other sites. He/She acted on this instruction.

Furthermore, when requesting cost transfers from Mr./Ms. U, Mr./Ms. AN stated the reason as "Since even a few tens of thousands of yen can change the percentage for small-scale construction projects at the site," based on his/her supervisor's instructions.

(c) Background and Motivation for Mr./Ms. I's Improper Conduct at Tokyo Machinery Center

Regarding the inappropriate actions involving the Tokyo Machine Center, Mr./Ms. I stated that these had been occurring since at least around 2020. He noted that when his/her site faced difficulties, it was common to request adjustments, such as having the completion date for machinery damage fees at the Tokyo Machine Center moved up to reduce the damage fees. He/She also mentioned that he/she had heard from Mr./Ms. U that the construction site manager frequently made unreasonable demands regarding repair costs from the Machine Center and was reluctant to pay, causing constant hardship. He/She perceived this as a kind of quid pro quo relationship and cited it as his/her motivation for creating a reserve fund using projects with surplus capacity.

Mr./Ms. A also mentioned that when his/her own site faced difficulties, he/she received flexibility—such as having costs transferred to other sites with surplus capacity during project settlements. Conversely, when his/her site generated profits and had surplus capacity, he/she communicated this to Mr./Ms. A and sometimes advocated for budget transfers to other sites, describing it as a mutually supportive relationship. Regarding the creation of the pool fund with Tokyo Machine Center, he/she stated that everyone recognized it as merely an internal cost transfer within the same company and saw no overall issue with it.

B. Background and Motivation of the Machinery Center

The Machine Center adopted a "passive" stance, processing claims as instructed by the Construction Department Manager or Construction Site Manager, and accommodated requests for cost transfers to other sites or preparations for pool fund creation. Mr./Ms. U and other Tokyo Machine Center personnel described the background and motives for their inappropriate actions at the Machine Center as follows:

・The Machine Center maintained a "passive" stance, processing claims as instructed by the Construction Department Manager or Construction Site Manager. Even if it involved transfers to other sites, they considered it acceptable as long as the costs were covered.

・Many construction site managers, other than Mr./Ms. A, held the understanding that even if machinery broke down, the costs were covered within the machinery damage fees borne by each site for their respective projects, and no separate repair costs were incurred. Consequently, they were often reluctant to accept repair cost claims. On the other hand, the Machine Center felt that the machinery damage allowance couldn't fully cover costs for significant damage occurring within a short period, so they wanted to bill the site to some extent. In this context, Mr./Ms. A helped adjust and handle the situation through cost reallocation.

・While repair costs are often not covered by the construction department, we were grateful that the construction department adjusted and covered them through on-site cost transfers.
・Cost transfer cases involving the Machine Center were common in the past, but I understand they have almost disappeared since the 2022 case was uncovered.
・Cost transfers involving the Machine Center have been practiced for a long time; they likely existed even when I was assigned to the Machine Center (over 10 years ago).

(6) Circumstances Unique to the Tokyo Machine Center (Ambiguity Regarding the Machine Center's Position and Maintenance Revenue Management Operations)

Regarding the inappropriate actions involving the Tokyo Machine Center, specific causes can be identified not only on the side of the Construction Department Section Chief or Construction Site Manager but also on the Machine Center side, as follows.

The Machine Center is tasked with generating and managing maintenance revenue. This includes collecting "machinery damage fees" from construction sites and billing "repair costs" when machinery malfunctions occur on-site. However, until the end of March 2023, the Machine Center belonged to Soil Technica, a subsidiary of our company. Since April 1, 2023, it has become a department within our company. Distinguishing it from our Construction Department, it can be said that the practical benefit of generating revenue is limited. In fact, the Machine Center functions as an internal cost center, and Mr./Ms. U also recognizes that "the Machine Center is not necessarily required to generate profits" [29].

Due to this limited significance of managing maintenance revenue at the Machine Center, Mr./Ms. U exercised discretion in determining whether to bill and the amount charged. For instance, he/she permitted not billing for repair costs incurred if the budget situation at the construction site warranted it.

As described above, due to its nature as an internal cost center within the company, the Machine Center effectively held discretion over how much damage compensation or repair costs to charge each site. This positioned it to function as a sort of adjustment valve for the overall profit and loss of all sites.

This situation not only generated entirely unproductive discussions about "where to allocate the burden within the company or group," but also undermined the significance of strict profit and loss management for each construction site through mechanisms like the NET Review Committee. Furthermore, it resulted in encouraging inappropriate actions by Construction Department Section Chiefs or Construction Site Managers.

(7) Other Suspicious Activities Involving the Machine Center

In addition to reclassifying items like "repair costs" and creating reserve funds, the Tokyo Machine Center was also suspected of reclassifying "labor costs."

Specifically, around November 2020, Mr./Ms. D of the Construction Section, Construction Department, Ground Engineering Division, was informed by Mr./Ms. Q of the same section that the labor costs for three operators employed by our company, who were working on the ●● Project managed by Mr./Ms. AK, would be transferred to the ●● Project managed by Mr./Ms. D.

[29] Mr./Ms. U stated that although he/she pointed out the lack of significance in such machine center maintenance revenue management tasks during internal meetings, no progress had been made in discussions within the company.

Labor costs for our company's operators are normally allocated based on attendance sheets sent by each site manager to the Machine Center. Regarding the above matter, Mr./Ms. AK sent an email to Mr./Ms. ●●, who handles system registration of attendance sheets at the Machine Center. This email included an attendance sheet with the "Project No." and "Project Name" altered to match Mr./Ms. AK's site. The email stated: "I have informed Mr./Ms. ●● and Director D, but Please reassign the labor costs for Mr./Ms. ○○, Mr./Ms. ○○, and Mr./Ms. ○○ (for November) to Director D's site."

According to Mr./Ms. D, the transfer amount is unknown. However, based on the following excerpt from an attachment in an email titled "Regarding ●●'s Portion" sent by Mr./Ms. Q to Mr./Ms. D and Mr./Ms. AK on November 22, 2020, the transfer amount is likely ¥500,000.

Work Type	Type	Details	Amount	Hirono Advance Payment Amount	Contractor
Construction Management Fee	Operator	November Demolition Labor (In-house Operator)	600,000	500,000	Center

While it cannot be denied that such improper practices involving the transfer of labor costs may have been widespread, the likelihood of an accounting impact is low since the projects from which and to which transfers were made were constructed during the same period. Furthermore, since attendance records are aggregated on a monthly basis, transfers should only be possible between projects conducted within the same month. From this perspective as well, even if such practices were widespread, it is highly probable that no accounting impact would arise.

4 Improper Use of Entertainment Expenses

The Committee's investigation confirmed the following inappropriate use of entertainment expenses (classified under general administrative expenses and construction costs).

(1) Summary of the Internal Investigation Committee Report

The Internal Investigation Committee Report analyzed the causes of this incident, noting that regarding the customary practices and actual conditions surrounding entertainment expense handling, "Even for entertainment expenses allocated as part of the construction site budgets, in the past, at some locations, construction department executives and others routinely used these funds without obtaining approval from the construction site manager. Furthermore, the construction site managers themselves tolerated this practice (thinking 'it's not a problem since there's a surplus' or 'it can't be helped if the company deems it necessary'). This indicates a situation and mindset where strictness regarding budget execution and expense disbursement was somewhat lacking.[30]

Furthermore, it was determined that part of the funds obtained by Mr./Ms. A cashing in gift certificates received from X Company was used for internal social gatherings, including "fees for internal golf competitions, social gathering fees for golf competitions, and refreshment expenses for appreciation events."

[30] In addition to the findings of the Internal Investigation Committee, the Company has determined that Mr./Ms. ●● improperly used entertainment expenses and has imposed disciplinary action.

(2) Overview of Entertainment Expenses and Internal Social Gatherings at Our Company

A Overview of Entertainment Expenses

The overview of entertainment expenses at our company is as follows.

The Company's entertainment expenses are categorized as either "Entertainment Expenses as Part of Construction Costs" or "Entertainment Expenses as Part of General Administrative Expenses." Entertainment expenses classified as "Part of Construction Costs" are costs incurred for entertainment related to specific construction projects and are included in the construction costs for those specific projects. Entertainment expenses classified as "Part of General Administrative Expenses" are those not related to specific construction projects and are considered costs not individually corresponding directly to securing construction sales.

Entertainment expenses classified as "Construction Costs" should be budgeted uniformly at 0.15% of the project price. The person responsible for managing cost accounting is designated as the project manager (construction site manager) or other business management supervisor [31].

The application procedure for entertainment expenses is stipulated in the "Business Operations Manual (Common Edition) 2nd Edition," under "5. Expense Reimbursement," "5-1. Application and Settlement of Business Trip Expenses and Entertainment Expenses," both entertainment expenses treated as construction costs and those treated as general administrative expenses require prior application using the "Entertainment Expense Request Form" (which includes fields for payee, project number (optional)), cost center, exection budget, cumulative amount incurred, planned amount, counterparty details, number of participants, and remarks). While electronic submissions have been in use since August 2021, paper slips were used prior to that. Furthermore, after using the entertainment expenses, the applicant submits the voucher with the receipt attached to request settlement, and the approver approves the settlement. The data entry method for the "Entertainment Expense Request Form" is summarized in the "RakuRaku Settlement Applicant Manual".

B Practical Operation Issues: Accepting Entertainment Expense Use for Internal Gatherings Lacking Basis in Company Regulations

During this committee's interviews with the company's officers and employees, many statements were heard indicating that the company permits the use of entertainment expenses for social gatherings. Indeed, an examination of the 21,016 entertainment expense requests submitted between August 2021 (when the request system was digitized) and September 2023, reveals that 4,792 cases (22%) were identified where the "Name of Counterparty" field was designated as "Internal," "Internal Dining," or "Internal Meeting." This figure included both entertainment expenses recorded as construction costs and those recorded as general administrative expenses.

Based on these circumstances, it is confirmed that, at least within the company, entertainment expenses are publicly used for internal gatherings, and the company tolerates this practice. Furthermore, whether to permit the use of company funds for internal social gatherings should be determined by company policy, and this committee is not in a position to evaluate the appropriateness of such decisions.

[31] Accounting Regulations Article 74

On the other hand, as mentioned earlier, the application procedures for entertainment expenses are stipulated in the “Business Operations Manual (Common Edition) 2nd Edition,” and the data entry method for entertainment expense requests is specified in the “RakuRaku Settlement Applicant Manual.” However, there are no provisions regarding the scope of use or usage standards, nor are there regulations on whether they can be used for internal gatherings.

Furthermore, the scope of the use for entertainment expenses as construction costs is defined as "expenses for entertaining clients, visitors, etc., condolence gifts, and presents" (as per the aforementioned Accounting Regulations). There is no provision stating that these funds can be used for internal gatherings. While one could interpret the "etc." in "clients, visitors, etc." to include "internal personnel," (While one could interpret the "etc." in "clients, visitors, etc." to include "internal personnel," considering the fundamental meaning of "entertainment expenses" and the examples given—"clients" and "visitors"—it is more straightforward to read the "etc." as referring to other external parties.) Additionally, while there are no provisions regarding the scope of use or usage standards for entertainment expenses as general administrative expenses, there is no reasonable basis to interpret them differently from entertainment expenses treated as construction costs.

Therefore, it must be concluded that our company’s regulations lack provisions (or at least lack clarification) permitting the use of entertainment expenses for internal social gatherings, whether categorized as construction costs or general administrative expenses. Allowing the use of entertainment expenses for internal gatherings, which involves the outflow of company assets, without clarifying the basis for such expenditures and merely emphasizing their necessity, constitutes a problem in terms of internal controls.

C Investigation into Improper Use of Entertainment Expenses

Next, based on the review of the Internal Investigation Committee's report and investigation materials, as well as DF and anonymous questionnaires, this Committee developed suspicions that within our company, not only were entertainment expenses being used for internal gatherings without a basis in internal regulations, as described above, but also that entertainment expenses might be being improperly used for internal gatherings accompanied by false application details.

Therefore, to clarify this point, the Company provided us with entertainment expense request data (electronic data from August 2021 onward, paper forms prior to that). While these requests included details such as payee, project number, responsible party, execution budget, cumulative amount incurred, planned amount, counterparty details, number of participants, and remarks, it was impossible to verify the truthfulness or appropriateness of this content based solely on the entries themselves. While it is conceivable to verify the truthfulness and appropriateness of each expense request by interviewing the applicants individually, the scope of such interviews would be enormous. Moreover, it is unlikely that these interviews would yield statements confirming false or inappropriate content in the applications, and the impact of the investigation results on financial accounting itself is not anticipated to be large.

Therefore, from the perspective of investigation efficiency, the Committee adopted an approach where, for items identified as questionable through DF, etc., inappropriate entertainment expense usage would be individually identified and confirmed through cross-checking with entertainment expense requests and interviews. The actual extent of the issue would be determined through anonymous questionnaires, interviews, etc.

(3) Inappropriate Use of Entertainment Expenses at the "Enclosure Meeting Hosted by the (Soil Improvement Business) Unit Head"

A Summary of the Case

From around 2016 to 2024 (except no meetings in 2019 and cancellation in 2024), the President, the Soil Improvement Business Unit Head and Deputy Head, the Tokyo Head Office Deputy Head [32], and the Soil Improvement Business Department/Section managers, the Yokohama Branch Manager and Chiba Branch Manager (hereinafter collectively referred to as the "Tokyo 3 Branches" with Tokyo Head Office), and the Soil Improvement Business Sales Section Manager (hereinafter referred to as the "Enclosure Meeting"). The Enclosure Meeting was held annually in December. It involved a golf competition at a golf course in Ibaraki Prefecture, followed by a year-end party at a restaurant in the same prefecture. Participants then stayed overnight at a nearby hotel before dispersing.

The term "Unit Head" referred to the Head of the Soil Improvement Unit. While the executives and staff attending varied by session (see the list of attendees below), the oldest session for which participants can be confirmed was in 2016, where the top participant was Mr. Okuda, then Executive Vice President and Director in charge of the Soil Improvement Unit. From 2018 to 2023, Mr. Okuda, who was President at the time, also participated. Attendance was limited to just under 16 people, forming no more than four golf groups, with no external participants. Furthermore, the event was not held in 2019. In 2020, due to the COVID-19 pandemic, only the golf competition took place (the year-end party and overnight stay were canceled). Preparations were underway for the 2024 event, but it was abruptly canceled when a tax investigation related to this matter commenced in December 2024. Furthermore, the participant list for 2021 could not be located, and only some participants could be confirmed via emails and other means.

The "Enclosure Meeting" was established around 2016 by Mr./Ms. AM (currently Managing Executive Officer and Head of the Soil Improvement Business Unit), who had become Deputy Head of the Tokyo Head Office. He/She served as the "Representative Secretary" of the "Enclosure Meeting" until 2018. From 2020 onwards, Mr./Ms. AL (currently Executive Officer and Deputy Head of the Soil Improvement Business Unit), who succeeded Mr./Ms. AM, has held this position. The "Secretary" or "Acting Secretary" managing the practical affairs under the "Representative Secretary" was Mr./Ms. ●●, then Head of the Soil Improvement Sales Department at the Tokyo Head Office, in 2018. From 2020 onward, this role was held by Mr./Ms. L, then either Sales Section Manager or Head of the same department (due to the expiration of email retention periods, the exact start date and the "Secretary" or "Acting Secretary" prior to 2017 cannot be identified).

At the "Enclosure Meetings," participants were charged a fee of approximately ¥11,000 to ¥12,000 (though the President and Unit Head were exempt from this fee). However, this participation fee was insufficient to cover all costs, including golf green fees, golf prize expenses, year-end party fees, and lodging expenses. Therefore, to cover these expenses, funds were diverted from entertainment expenses recorded as general administrative expenses at the Tokyo 3 Branches and from entertainment expenses recorded as construction costs. For the general administrative expenses, applications and approvals were made using falsified entertainment expense requests disguised as external hospitality. For the construction cost entertainment expenses, no connection to the construction work was recognized. Furthermore, part of the funds obtained by cashing gift certificates received by Mr./Ms. A from X Company, as confirmed by the internal investigation committee, was spent on the "Enclosure Meeting."

B Income and Expenditures for the 2018 "Enclosure Meeting"

Detailed budget documents remain for the “Enclosure Meeting” held in 2018, 2019, and 2022. According to the 2018 documents, the income and expenditure budget summary is as follows.

[32] The participation of the Tokyo Head Office Manager cannot be confirmed.

The entry "(Golf Portion)" in the "Revenue" column was improper used as described in C (A) ① below, and the "Chiba Branch General Administrative Expenses (Banquet Portion)" was covered by the improper use described in C (A) ② below, and the "Tokyo Head Office Field Expenses (Banquet Portion)" was covered by the improper use described in C (A) ③. Golf gift certificates, which were designated as off-budget items to be prepared by the head office and branches, appear to have been diverted from those purchased by the Tokyo 3 Branches for gift purposes using general administrative expenses. However, it is highly likely that the gift certificates were purchased in bulk, and it was not possible to identify specific entertainment expense requests from general administrative expenses corresponding to each individual purchase.

The 2019 and 2022 events also had broadly similar income and expenditure budgets, and it is inferred that other events also had broadly similar budgets.

Expenses		Revenue	
Golf expenses (including lunch)	¥255,000	Tokyo Head Office General Administrative Expenses (Golf Portion)	¥100,000
Golf Course Beverages	¥60,000	Chiba Branch General Administrative Expenses (Golf Portion)	¥50,000
		Yokohama Branch General Administrative Expenses (Golf Portion)	¥105,900
Banquet Fee (15 people)	¥150,000	Chiba Branch General Administrative Expenses (Banquet Portion)	¥100,000
		Tokyo Head Office Field Expenses (Banquet Portion)	¥50,000
Hotel Fee (15 guests)	¥105,300	Accommodation surplus	¥10,400
		Participation Fee (14 people) ※President excluded	¥154,000
Total Estimated Expenses	¥570,300	Total Estimated Income	¥570,300
Budget surplus/deficit			
Golf Prize Gift Certificates	¥40,000	Tokyo Head Office Preparation (Gift Certificates)	¥10,000
		Chiba Branch Preparation (Gift Certificates)	¥10,000
		Yokohama Branch Preparation (Gift Certificates)	¥10,000
		Field Expenses (Gift Certificates)	¥10,000

C Status of "Enclosure Meeting" and Inappropriate Use of Entertainment Expenses

The status of the "Enclosure Meeting" held since 2018, confirmed through objective documentation, and the status of entertainment expenses confirmed to have been used inappropriately are as follows (Due to changes in the entertainment expense application format, the items that could be confirmed differ by year. For 2017 and earlier, specific details cannot be identified due to factors such as the expiration of email retention periods)

All entries stating that external parties attended as "clients" are false.

The entry stating "○ yen obtained by cashing gift certificates received by Mr./Ms. A from X Company" refers to funds arranged by himself/herself using cash obtained through the above method. This was done because he avoided using entertainment expenses as part of construction costs, despite being requested by the "Enclosure Meeting" organizer to arrange it as "Tokyo Head Office Field Expenses (Banquet Portion)" using entertainment expenses allocated for construction costs.

Furthermore, the list of participants for each year is as follows at the end of this section.

(A) December 8, 2018 (Golf, Year-End Party, Accommodation)

① Golf portion

Applicant: Mr./Ms. ●● Funding Source: Yokohama Branch Soil Improvement Unit Budget Item: General Administrative Expenses
Date of Use: December 8, 2018 Payee: ○○ (※Golf Course Operator)
Actual Amount of Use: ¥261,861
Counterparty Name: ●● Co. (○○ Construction Department Manager, ○○ Civil Engineering Department Manager) ←【Falsified】
Company Attendees: Mr./Ms. AM, ●●, ●●, ●●, ●●, ●●
Entertainment Expense Category: Golf (Split equally between Tokyo Head Office (Soil Improvement) and Chiba Branch

② Banquet portion (Chiba Branch's share)
Applicant: Mr./Ms. ●● Funding Source: Construction Cost Chiba Branch
Construction Project No.: "●●" Project Name: "●● Project"
Budget Item: General Administrative Expenses Date of Use: December 8, 2018
Payee: ○○ (※Banquet Venue Restaurant)
Actual Amount of Use: ¥84,700
Counterparty Name: ●● Co. (Director ○○, Construction Manager ○○, etc.) ←【Falsified】
Company Attendees: ●●, ●● Department Manager, ●● Section Chief, Section Chief Mr./Ms. A
Entertainment Expense Category: Meal Expenses

③ Banquet portion (Tokyo Head Office Field expenses)
Funds obtained by cashing gift certificates received by Mr./Ms. A from X Company: ¥100,000 [33]

(B) December 12, 2020 (golf only)
① Application Date: December 7, 2020 Applicant: Mr. ●●
Funding Source: Yokohama Branch Soil Improvement Division Budget Item: General Administrative Expenses
Payee: ○○ Country Club Actual Amount Used: ¥120,910
Counterparty Name: ●● Co. (Mr. ○○, Mr. ○○, and others) ←【Falsified】
Company Attendees: Mr./Ms. AL, ●●, ●●, ●●, ●●, ●●
Entertainment Expense Category: Golf (Split evenly between Tokyo Head Office (Local Sales) and Chiba Branch)

(C) December 18, 2021 (Golf, Year-End Party, Overnight Stay)
① Golf Expenses
Applicant: Mr./Ms. ●● (Yokohama Branch) Budget Item: General Administrative Expenses Funding Source: Yokohama Branch
Date of Use: December 18, 2021 Amount of Use: ¥291,994
Counterparty Name: ●● Co. (Department Manager ○○ (●● Branch), Deputy Branch Manager ○○ (●● Branch), and others) ←【Falsified】
Entertainment Expense Category: Golf Number of Participants: 15

② Funds obtained by cashing gift certificates received by Mr./Ms. A from X Company: ¥100,000

[33] The budget document states the share of "Tokyo Head Office Field Expenses" is ¥50,000, but since Mr./Ms. A voluntarily declared an expenditure of ¥100,000, the amount was certified based on that declaration.

(D) December 10, 2022 (Golf, Year-End Party, Lodging)

① Applicant: Mr./Ms. L Budget Item: General Administrative Expenses Funding Source: Tokyo Head Office Soil Improvement Unit
Date of Use: December 10, 2022 Amount of Use: ¥250,199
Counterparty Name: ●● Co. (Deputy Branch Manager ○○, Civil Engineering Department Manager ○○) ←【Falsified】
Entertainment Expense Category: Golf Number of Participants: 12

② Applicant's Affiliation: Yokohama Branch Asset Account: Advance Payment (Yokohama Branch)
Budget Item: General Administrative Expenses Funding Source : Yokohama Branch
Date of Use: December 10, 2022 Estimated Amount: ¥30,000
Entertainment Expense Category: Gifts Recipient: ●● Company Reason for Expenditure: Year-end gifts ←【Falsified】

③ Funds obtained by cashing gift certificates received by Mr./Ms. A from X Company: ¥100,000

(E) December 16, 2023 (Golf, Year-End Party, Lodging)

① Applicant: Mr./Ms. L (Tokyo Head Office, Soil Improvement Sales Department)
Budget Item: General Administrative Expenses (Construction Number field blank) Funding Source: Tokyo Head Office Soil Improvement Unit
Date of Use: December 16, 2023 (Description: "For golf play fees on 12/16")
Amount of Use: ¥285,990
Counterparty Name: ●● Co. (2 persons: ○○ General Manager and ○○ Office Manager) ←【Falsified】
Payee: ○○ (※Golf Course)
Company Attendees: Mr./Ms. AL, ●●, ●●, Mr./Ms. A, ●●, ●●, ●●, ●●, ●●, Mr./Ms. L (10 persons)

② Funds obtained by cashing gift certificates received by Mr./Ms. A from X Company: ¥100,000

(F) December 21, 2024 (Golf, Year-End Party, Lodging)

Following the commencement of a tax audit concerning this matter on December 6, 2024, the event was abruptly canceled on the same day.

During the preparatory phase, Mr./Ms. L, acting as the organizer, informed the participating members—including department managers and below from the Tokyo Head Office, and branch managers and below from the Chiba and Yokohama branches—that: "This time, we will allocate entertainment expenses for a social gathering with the Tokyo branch of Company ●●.""Golf fees: ¥20,000 x 15 people = ¥300,000 to be split among the three locations (reimbursed)" "Gift certificates: ¥10,000 from each branch" "Banquet costs to be paid by the construction project (Banquet cost - Participation fee)".

<Attendees and Positions for Each Year's "Enclosure Meeting">

Year	2016	2017	2018	2020	2021	2022	2023	2024 ※Cancelled
President			**Mr. Okuda**	**Mr. Okuda**	**Mr. Okuda**	**Mr. Okuda**	**Mr. Okuda**	
General Manager of Corporate Planning Department					Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	
Soil Improvement Unit Unit Head: ~2017 Executive Vice President, 2018~ Managing Executive Officer Deputy Head: Executive Officer								
Unit Head	**Mr. Okuda**	**Mr. Okuda**		**Mr. Ohbayashi**		**Mr. Ohbayashi**	**Mr. Ohbayashi**	**Mr. Ohbayashi**
Deputy Head				**Mr./Ms. AM**	**Mr./Ms. AM**		**Mr./Ms. AM**	**Mr./Ms. AM**
General Manager of Engineering Department				Mr./Ms. ●●				
Tokyo Head Office Deputy Head: 2021~ Executive Officer								
Deputy Head	Mr./Ms. AM◎	Mr./Ms. AM◎	Mr./Ms. AM◎	**Mr./Ms. AL◎**	**Mr./Ms. AL◎**	**Mr./Ms. AL◎**	**Mr./Ms. AL◎**	**Mr./Ms. AL◎**
General Manager of Soil Improvement Sales Department	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●○	Mr./Ms. ●●	Mr./Ms. ●●		Mr./Ms. L○	Mr./Ms. L○
Sales Section Manager of Soil Improvement	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. L	Mr./Ms. L○	Mr./Ms. L	Mr./Ms. L○		
Sales Section of Soil Improvement			Mr./Ms. ●●				Mr./Ms. ●●	Mr./Ms. ●●
General Manager of Soil Improvement Construction Department	Mr./Ms. ●●※	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. A	Mr./Ms. A	Mr./Ms. A	Mr./Ms. A
Construction Section Manager of Soil Improvement	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. A	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●
Construction Management Section Manager of Soil Improvement	Mr./Ms. A	Mr./Ms. A	Mr./Ms. A	Mr./Ms. ●●				
Soil Research Office Director			Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●
Tokyo Head Office Chiba Branch								
Branch Manager	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●
Sales Section Manager	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●
Sales Section	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●		
Tokyo Head Office Yokohama Branch								
Branch Manager	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●
Sales Section Manager	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	
Sales Section		Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●	Mr./Ms. ●●
Other								
		Mr./Ms. L						3 individuals

*Titles omitted. Positions are as of the time. "Section Manager" includes acting section manager when no section manager was assigned to the department.
*◎ denotes Representative Secretary, ○ denotes Secretary or Acting Secretary , * denotes then-Director of Construction, Soil Improvement, bold indicates executive officer or above
*No meeting held in 2019; canceled in 2024

D Scope of Awareness Regarding Improper Use of Entertainment Expenses for "Enclosure Meeting"

The inappropriate use of entertainment expenses for the "Enclosure Meetings" was carried out by the Secretary or Acting Secretary, with the acknowledgment of the Representative Secretary (Mr./Ms. AM, Mr./Ms. AL). This involved contact, consultation, and coordination with senior personnel from participating head offices and branches and members at or below the level of Sales/Construction Section Manager for the Soil Improvement business. The expenses were then processed by each head office, branch, or Sales/Construction Department/Section applying for their respective share.

Therefore, not only the senior executives from each participating head office and branch and the Sales/Construction department managers involved in the Soil Improvement project, but also the Representative Secretary, Mr./Ms. AM and Mr./Ms. AL, were aware of the improper use of entertainment expenses and approved it. However, the fact that Mr./Ms. A used cash obtained by cashing gift certificates received from X Company to cover the Construction Department's share was not known to anyone other than him/her. The Secretary and other participants believed that Mr./Ms. A was covering the Construction Department's share from entertainment expenses treated as construction costs (which is itself an inappropriate use) Mr./Ms. AM handed over the role of to Representative Secretary Mr./Ms. AL after 2019, but he was aware that the "Enclosure Meeting" continued to be held in a similar manner thereafter.

Furthermore, the "Enclosure Meeting" included Mr. Okuda (current President and Representative Director) and Mr. Ohbayashi (current Executive Vice President) as the "enclosed" parties. However, there were no records indicating their involvement in the preparation or settlement of the event. Moreover, Mr./Ms. AM and Mr./Ms. AL, who served as lead organizers, stated they never reported the fact of the improper use of entertainment expenses to Mr. Okuda and Mr. Ohbayashi. Mr. Okuda and Mr. Ohbayashi also stated during this Committee's hearing that they understood the entertainment expenses were being used appropriately for internal company gatherings. Therefore, this Committee cannot establish the fact that Mr. Okuda and Mr. Ohbayashi were aware that entertainment expenses were being generated through such false applications. However, as previously stated, the use of entertainment expenses for internal gatherings fundamentally violates our company regulations. Even putting this point aside, given the company's actual practice of tolerating such use, the company itself issued a directive in June of that year titled "Strict Prohibition of Improper Accounting Practices and Reaffirmation of Compliance," following the 2022 case arising from the Soil Improvement business. Within this directive, it was stated: "As top management, such improper accounting practices are absolutely unacceptable. To prevent recurrence of similar acts, based on this investigation report, implement the following recurrence prevention measures and ensure their thorough execution." Therefore, at least for meetings held after December 2022, where executives from the Soil Improvement business were all present and significant expense outlays were easily foreseeable for the "Enclosure Meetings," it was possible—and indeed, it should have been done—to confirm or question the method of expense handling from the perspective of ensuring strict compliance.

(4) Branch Manager's Internal Gatherings Disguised as External Entertainment

Regarding Mr./Ms. AL, in addition to the aforementioned " Enclosure Meetings ", it has been confirmed that in March 2019, while serving as the Kitakanto Branch Manager, he/she expensed general administrative expenses (entertainment expenses) by disguising internal social gatherings as external entertainment. The following is the content of the entertainment expense claim. Although he/she is not listed as the applicant or attendee on the claim form, he/she participated in the event. He/She acknowledges the fact that a claim containing false information was submitted.

Applicant: Mr. ●● Funding Source: Kitakanto Branch
Budget Category: General Administrative Expenses Date of Use: March 12, 2019 Payee: Ginza ○○ Sushi
Actual Amount Spent: Blank (Estimated Amount: ¥120,000)
Counterparty Name: ●● Co. (Manager ●●, Section Chief ●●)
Company Attendees: Mr./Ms. ●●, Mr./Ms. ●● Entertainment Expense Category: Meal Expenses

(5) Spread of Improper Entertainment Expense Usage

The inappropriate use of entertainment expenses involving executives and managers that this committee has identified and specifically determined is as described above and is limited to these cases. However, anonymous surveys and interviews revealed the following concerns:

A Anonymous Questionnaire (Partially summarized and abstracted)

(Regarding the actual state of internal gatherings using entertainment expenses)

・We spend a lot on entertainment expenses, so we don't feel the strictness (especially for internal dining expenses)
・Not limited to our industry, there may be a sense of familiarity in settling expenses for social gatherings.
・When dealing with competitors, it feels like entertainment and travel expenses are freely used for golf and dining.
・Whether at branch offices or field locations, I believe how entertainment expenses are used is left to individual ethics.
・The handling of entertainment expenses is sloppy, and I think there's far too much internal dining. I question whether the accompanying use of budgets for things like taxi fares is appropriate.
・I think we should re-examine the nature and usage of both external and internal entertainment expenses.
・Too many people use entertainment expenses for internal company meals. I often hear about questionable business trips that seem like personal outings. Too many people are using company money for private purposes.
・From a mid-career hire's perspective, the internal use of entertainment expenses and overall attitude toward money seems somewhat lax compared to other industries. There's an impression that some view "eating and drinking on company money as part of employee benefits and therefore normal."
・There are disparities in how departments and divisions use expenses like entertainment funds, and I suspect many employees feel dissatisfied. Some departments cover employee drinking gatherings with company funds, while others do not.
・A significant number of people feel anxious about whether declining after-work drinks or golf competitions might negatively impact their performance evaluations, as many colleagues react as if such refusals are somehow wrong.
・While it seems like an industry-wide culture, I sometimes think there could be better ways to communicate.
・There were deficiencies in the company's entertainment expense system. Awareness and management regarding the purpose and control of these expenses were not thoroughly implemented.

(The Internal Investigation Committee identified company social gatherings as a motive for the inappropriate behavior in this case)

・Rampant internal entertainment expenses

・Because I need money for company entertainment.

・I feel like I was being pressured into internal entertainment.

・Didn't they raise money for internal sales?

・Wasn't there a separate arrangement for Soil Improvement project-specific internal entertainment expenses?

・I believe our company has excessive internal entertainment expenses. I think some of these were unavoidable to cover improper handling.

・Receipts and invoices for internal dining expenses, which should have been processed under general administrative expenses, were handed over or accepted voluntarily. However, hesitation may have arisen in requesting the site manager to process them under site expenses due to the lack of a general administrative entertainment budget.

・By creating fictitious orders, it was possible on paper to allocate budgets that should have been recorded as indirect expenses under construction costs as outsourcing fees or material costs. I believe the idea was that by kickbacking the amounts gained this way and using them for internal and external entertainment and rewards, operations could be smoothly executed.

・Even after this misconduct occurred, there is a distinct feeling that there is no intention to change, nor any desire to change, the use of entertainment expenses (including cases disguised under the name of meeting expenses). It appears operations are being driven by the mindset that if funds cannot be used within the Soil Improvement Division, they can simply be drawn from Soil Technica's entertainment expenses. Evidence of such entertainment and meeting expenses can be observed. While the system technically requires submitting and obtaining approval for entertainment expense requests in order to utilize such funds, this is merely a formality, and post-event application and settlement have become the norm. Similarly, business trip expense reports that raise questions about whether they were for leisure or entertainment are commonplace.

(Regarding internal gatherings, pointing out the reality of "entertaining" superiors)

・Internal entertainment occurs outside of field personnel (e.g., site inspections)

・How executive-level personnel use expenses

・The old guard still strongly prefers internal dining (they want to eat and drink on the company's dime).

・The abnormality of internal entertainment is also one of the reasons. (One can palpably feel the excessive care taken when executives visit stores or offices.)

・Upper management deliberately schedules meetings the day before golf competitions, likely to cover travel and hotel expenses with company funds.

・Rules should be established regarding the customary expenditure on meals and internal social gatherings when executives or supervisors travel to regional offices. This is because a culture exists where subordinates feel compelled to cover meal expenses using the branch's budget when executives visit, or pay for lunch using company funds. This needs improvement.

・Under the current HR system, supervisor evaluations carry significant weight. Consequently, practices exist not only to boost project profits but also to curry favor with superiors, such as inviting them to sites for meals and golf, or treating them to meals when visiting head offices or branches. Ultimately, when it comes to generating funds, the only viable method seems to be fictitious orders routed through contractors.

・The (Internal Investigation Committee) report mentioned that witnessing a superior use site expenses for meals and drinks when he was young, and thinking "I will never do such a thing," became a root cause of his improper handling of meal expenses. I can understand that perspective to some extent.

(This points out that internal gatherings are conducted through improper use of entertainment expenses.)

・Entertainment expense requests are sometimes circulated as external even when internal, or external ones list company names that differ from reality. Many internal meals also incur accompanying taxi fares. Is drinking and socializing an industry custom?

(Citing internal gatherings as expenses that couldn't be properly processed)

・Issues with internal social gathering processing at the time (now improved)
・Social gatherings with adjacent construction sites, social gatherings with clients
・Since no internal drinking gatherings could be reimbursed as expenses, the costs ultimately fell on supervisors.
・Field members sometimes requested drinking gatherings after work or on holidays, and I occasionally covered the costs out of my own pocket. I felt an expectation from participants that I would pay, so I did. It wasn't always out of my own pocket; sometimes we split the bill, and sometimes I paid nothing.

(Views that positively regard internal social gatherings)

・Branch employees spend entertainment expenses not only on customers and competitors but also on partner companies, employees (subordinates), and visitors (internal). I believe these expenses, especially those for employee interactions, shape the workplace atmosphere, which both internal and external parties perceive as the company culture. The way entertainment expenses have been used and spent up to now defines the current corporate culture.
・Regarding industry customs, I feel it's sometimes necessary to be lenient in allowing entertainment expenses to ensure smooth field operations. I believe it's wrong for staff to be forced to pay out of their own pockets.

B Hearing

(Regarding the actual state of internal gatherings)

・When other departments come from Tokyo, there are drinking parties for communication, and gifts for clients. Since I became ○○, I haven't paid for expenses like golf competitions. I assume those are covered either by general administrative expenses or construction-related entertainment expenses.
・When executives come from Tokyo, the expenses for entertaining them were previously sometimes covered by branch expenses or site expenses. Two or three years ago, the general pattern was that sales utilized the branch expenses, and the Construction Manager was also allowed to use funds within the construction budget. The method varied by situation—sometimes it was covered by construction expenses, and other times by sales expenses. When covered by construction expenses, it came from the site's entertainment expenses.

・Gift certificates are sometimes given for internal transfers, but more often, they are given to departing employees. These expenses are covered through the site's entertainment budget, etc.

(Pointing out that internal gatherings disguised as external entertainment were occurring)

・I've heard of cases where, even though it was just internal drinking, it was reported as an entertainment expense and settled as a meeting including the prime contractor. I also did this myself two or three years ago.

・The practice of disguising internal gatherings as external ones was common; indeed, it was routine.

・Up until a certain point, there was a "Miscellaneous Expenses" category with a maximum limit of 30,000 yen that could be used for employee social activities, and everyone utilized it. However, when expenses exceeded the 30,000 yen limit, entertainment expenses were used. Despite being used for internal employee social activities, these were treated as entertainment expenses involving external parties. I believe this operational practice had continued until the present time.

・While I cannot speak for other competitions,some may have employed similar methods to the " Enclosure Meetings ."

・Regarding hospitality provided locally when executives from headquarters/main office visited on business trips: If you say that similar internal social gatherings and expense usage had become routine, then yes, it had become routine. I recognize this was not proper handling.

・Since the intent was to permit internal social gatherings, we assumed it would be acceptable.

・Meetings and social gatherings were constant, but the drinking pattern involved going to second and third rounds, causing costs to skyrocket. We felt compelled to cling to something. While the main office had its budget, construction projects had separate budget allocations. There was a prevailing attitude: "Don't use the main office budget; you have your own construction budget, so use that." I don't know about other regions, but I suspect it wasn't that different.

(Pointing out that there were restrictions on using entertainment expenses as construction costs by the construction site manager)

・Sales entertainment expenses are mainly used for internal sales activities (entertaining higher-ups) and entertaining vendors, so they run out, leading to the use of field entertainment funds.

・Site managers often can't use their entertainment budgets. Sales overuses theirs. They send multiple thank-you gifts for orders when one would suffice. Weaker construction site managers get overruled by sales.

・At ○○, we were actually told not to use the construction site's entertainment budget (sales uses it all)

・At ○○, I heard that the entertainment funds held at the site must not be used at all because the branch office uses them. While we older managers aren't told this anymore, younger site managers had theirs completely used up. The instruction not to use them comes from the Construction Section Manager. I suspect the Section Manager is also being told this by their superiors. The reason for not being able to use the funds isn't cost reduction; it's simply that while the purpose isn't clear, department heads, managers, sales staff, and those above them use them, so those below aren't allowed to.

・Site entertainment funds are used by the branch sales team, making them unavailable for site use (an unwritten rule) I believe this has been the case since I joined the company.
・I think the reason they don't let the field use entertainment expenses is because the branch wants to spend the money. The executives give the impression of spending lavishly.
・When we were working in the field, it was during a downturn in the construction industry, and I recall we could hardly use any entertainment expenses. Those funds were used by the sales department, so the field staff could hardly use any. This was the case even when I was a branch manager, and that perception has persisted for a long time. Entertainment expenses are managed by the branch office. (How they're used) There are drinking parties for communication when people from other departments in Tokyo visit, and there are also gifts for clients.

(C) Findings of the Internal Investigation Committee Report

The Internal Investigation Committee Report states the circumstances leading to Mr./Ms. A's inappropriate conduct: "From around 2016, when he/she was Manager of the Tokyo Soil Improvement Department, he/she used his/her personal credit card to pay for food and drink expenses incurred during the second or third rounds of social gatherings following company social events, particularly those involving department managers and the Soil Improvement Unit. He/She then failed to settle these expenses as entertainment expenses among attendees or within the company. As a result, he/she often ended up bearing the costs personally." He/She states that he/she paid for food and drink expenses incurred at second or third gatherings following these events using his/her personal credit card. He/She did not subsequently settle these charges as entertainment expenses among attendees or within the company. Consequently, he/she often ended up bearing the costs personally. To prepare for such outlays, he/she wanted to keep cash on hand that he/she could use freely. Regarding this point, the report states: "According to him/her, in the past, expenses for such social gatherings were settled using the site's entertainment expense budget, even when the site construction manager was not present. However, he/she had disapproved of this use of entertainment expenses when he/she was a construction manager. Therefore, after becoming a section manager, he/she did not settle such expenses using the site's entertainment budget, choosing instead to bear the costs personally, so that the construction manager would not experience the same dissatisfaction." [34]

(6) The "Spread" of Improper Entertainment Expense Usage Observed from the Findings

The above investigation findings reveal the following "spread" of inappropriate entertainment expense usage:

A Internal Entertainment Not Based on Company Regulations

Despite the company lacking regulations (or at least failing to clearly define them) that permit the use of entertainment expenses for internal social gatherings under either construction costs or general administrative expenses, the company vaguely condoned this practice by solely emphasizing its necessity. This itself constituted a problem in terms of internal controls.

[34] Internal Investigation Committee Report (Public Version), Page 29

B Internal gatherings involving false claims and internal gatherings unrelated to specific projects

Furthermore, regarding entertainment expenses classified as general administrative expenses, internal gatherings disguised as external client entertainment through false claims were routinely conducted. Regarding entertainment expenses classified as project costs, their use for internal gatherings unrelated to specific projects was also routinely practiced.

Executives and managers within the Soil Improvement Unit were aware of the existence of such inappropriate internal gatherings and were sometimes personally involved. The nature of these gatherings included hospitality-oriented internal gatherings held when senior personnel such as executives and managers visited regional offices.

C Use of Entertainment Expenses as Construction Costs by Branch Construction and Sales Department Sections

The Internal Investigation Committee Report determined that: "Regarding entertainment expenses allocated as construction site budgets, in the past, depending on the location, construction department executives and others routinely used these funds without obtaining approval from the construction site manager. The site managers themselves tolerated this practice (thinking 'it's surplus, so no problem' or 'if the company needs it, it can't be helped'). This reflects an actual situation and mindset where strictness regarding budget execution and expense disbursement was somewhat lacking."[35] However, the Committee's investigation found that in the Soil Improvement Unit, it was not merely a matter of "somewhat lacking strictness." It had become routine practice for the construction and sales sections/departments at branch offices and their superiors to use entertainment expenses as construction costs when they needed funds for purposes such as internal gatherings, even when these expenses were unrelated to the actual purpose for which the funds were intended. To enable this practice of utilizing entertainment expenses as construction costs, some branches requested construction site managers not to use such expenses as construction costs. Even in the absence of specific requests, this practice existed as an established custom (though in some cases, construction site managers simply had no opportunity to use entertainment expenses or did not know how to use them, resulting in their non-use).

Furthermore, cases have been confirmed where golf competition prizes for internal gatherings were provided to cooperating contractors, who then billed them under different expense categories. This indicates that construction costs other than entertainment expenses were also sometimes spent on internal gatherings.

D Doubts Regarding Appropriate External Entertainment and Internal Social Gatherings

While our company conducts numerous external entertainment and internal social events, it is impossible to verify the authenticity or appropriateness of the use of entertainment expenses solely based on the content of the expense reports themselves. However, given the circumstances outlined above, it cannot be denied that these external entertainment and internal social events may include cases where the reported content is false, entertainment expenses are used as construction costs unrelated to the project, or entertainment expenses are used as general administrative expenses unrelated to our company's business.

E Invalidation of Internal Controls and 2022 Case Recurrence Prevention Measures

[35] Internal Investigation Committee Report (Public Version), Page 47

The department managers, section managers, and branch managers who approve entertainment expense usage were themselves involved in the inappropriate usage, rendering the checks against inappropriate entertainment expense usage ineffective.

Although the Soil Improvement Unit experienced the 2022 incident, prompting a June 2022 president's directive titled "Strict Prohibition of Improper Accounting Practices and Reinforcement of Compliance," senior management in the Soil Improvement Division continued to hold annual "entertainment gatherings" as usual. Consequently, measures to prevent recurrence of the 2022 incident were also rendered ineffective.

(7) Summary

Whether to permit the use of company funds, such as entertainment expenses, for internal gatherings should be determined by company policy, and this Committee is not in a position to evaluate the appropriateness of such decisions[36]. Furthermore, the impact on the Company's financial accounting from the improper use of entertainment expenses identified above is considered minimal.

However, if the company permits the use of entertainment expenses for internal gatherings, it should clearly stipulate this policy. Allowing the use of entertainment expenses, which are company assets, without such a clear policy is inherently problematic from an internal control perspective. Furthermore, social gatherings funded by site entertainment expenses unrelated to construction work, or by falsely recorded general administrative expenses, are clearly unacceptable. It is particularly problematic that senior management within the Soil Improvement Division, who should have been promoting proper accounting practices, routinely engaged in this practice.

Moreover, while the internal investigation committee determined Mr./Ms. A's actions were inappropriate, Mr./Ms. A stated that one destination for funds obtained by cashing gift certificates received from X Company included contributions to the " Enclosure Meetings " from the Construction Department. While it cannot be said that other members of the " Enclosure Meetings " were aware that Mr./Ms. A was raising funds in this manner, objectively speaking, the participating members became the ultimate consumers of the funds Mr./Ms. A obtained by cashing in the gift certificates received from X Company and benefited from them. To that extent, the implementation of the " Enclosure Meetings " by the upper management of the Soil Improvement Unit can be said to have been part of the direct cause of the incident involving Mr./Ms. A.

Furthermore, it raises questions whether it is appropriate to establish a framework where, while construction site managers are held responsible for profit and loss management of each project under the pretext of enforcing thorough individual cost management and are required to provide detailed explanations when deviating from targets, the construction and sales sections/departments at branch offices and their superiors (who bear no profit and loss management responsibility) can spend entertainment expenses as construction costs in areas beyond the site managers' control.

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[36] However, practices within the company where subordinates "entertain" superiors during internal gatherings (e.g., examples like the aforementioned "enclosure meetings" mentioned earlier, or when executives or senior management visit regional offices on business trips and the regional offices bear the expenses to entertain them), one cannot help but feel a simple sense of unease as an outsider. Considering the fundamental purpose of internal social gatherings, should superiors really be in a position to receive "entertainment" from subordinates? Shouldn't they instead be in a position to show appreciation and encouragement to their subordinates?

Furthermore, the Soil Improvement Unit encountered the 2022 case, which prompted the issuance of a President's Circular titled "Strict Prohibition of Improper Accounting Practices and Reinforcement of Compliance" in June 2022. Nevertheless, the Soil Improvement Unit's upper management, with the President himself as a participant, held the annual "Enclosure Meeting" in December of that same year as usual and continued it in the same format thereafter. While Mr./Ms. AM and Mr./Ms. AL claim they did not consider improving the operation of the Enclosure Meeting or other internal social gatherings even after receiving the aforementioned President's Circular, this stance is no different from that of the construction site managers who continued cost reallocation and cost shifting even after the Circular was issued.

The executives and managers of the Soil Improvement Unit were in a position to take the lead in thoroughly disseminating this Circular within the division. However, they lacked the awareness to practice the Circular's directive of "strictly prohibiting improper accounting practices and reinforcing compliance." In addition, the recurrence prevention measures for the 2022 case included strengthening the check system by department managers and section managers as part of enhancing internal controls. However, it is inconceivable that the check function performed by these very department managers and section managers could be effective when they themselves were engaging in improper usage.

Moreover, hearings conducted by this Committee and anonymous surveys suggest that construction site managers and workers were aware of the reality of these internal social gatherings. Given that upper management routinely misused construction costs for such gatherings, it was difficult to expect site managers and workers to sympathize with, and act upon, strict orders to cease improper cost shifting or cost reallocation.

In the summary of recurrence prevention measures disclosed on March 31, 2025, following the internal investigation committee report, the company stated it would "eradicate the harmful business practices that contributed to this incident." However, the inappropriate internal socializing practices that have spread even to executives, as described above, are precisely the harmful business operating customs that should be eradicated first and foremost.

5 Amount of Newly Identified Improper Conduct

The amounts of newly identified improper conduct confirmed by this committee's investigation are as detailed in Appendix 4, "Summary Table of Improper Conduct Amounts."

Note that this table reflects the amounts of the improper acts themselves, while their impact on accounting is detailed in Section 6 below.

6 Financial Accounting Impact Amount

(1) Method of Calculating the Amount Impact

The Committee's investigation confirmed multiple instances of improper conduct, as described above. These acts can be broadly categorized into four types: ①Pool Fund, ②Improper activities through Tokyo Machine Center, ③Cost transfers between Projects, and ④Cost item transfers within the Same Project. Transactions subject to aggregation included those self-reported by perpetrators via self-reporting sheets and those confirmed as questionable through DF investigations where involved parties admitted responsibility during interviews, excluding transactions already verified by the internal investigation committee.

Regarding pool funds (①), most transactions involved unclear usage or timing of expenditure, except for a few cases clearly documented as funds transferred to other projects. For pooling funds with unclear usage or timing of expenditure, this Committee calculated the maximum potential financial impact for financial accounting purposes and included the full amount as costs to be reversed in the calculation. Improper actions through Tokyo Machine Center (②) are discussed in section (2) below. For cost transfers between projects (③), while profit/loss impacts existed at the project level, no company-wide differences in total cost amounts or billing timing occurred. Therefore, no financial accounting impact was recognized (ignoring revenue recognition standards for construction contracts and tax treatment). For cost item transfers within the same project (④), except for one case suspected of private use by the perpetrator (details described in section (3) below), no differences in cost amounts or billing timing have arisen, similar to the cost transfers between projects in section ③. Therefore, no impact on financial accounting is considered to exist.

The internal investigation committee classified pool fund as follows: those with a designated construction project for allocation were termed the "Transfer Model," while those without a designated project or purpose were termed the "Pool Fund Model." Among these, only the "Pool Fund Model" was included in the reporting of the impact amount. The "Transfer Model"—that is, cost transfers between projects via pooling activities with cooperating contractors and cost item transfers within the same project—was excluded from the reporting scope. In contrast, this Committee included all activities falling under conditions ① through ④, regardless of the amount involved, in the reporting of the impact amount.

(2) Financial Accounting Impact of Improper Conduct via Tokyo Machine Center

As outlined above, the improper activities conducted through the Tokyo Machine Center were confirmed to be: ① Cost Transfer Type, ② Pool Fund Reserve Type, and ③ Discretionary Claim Adjustment Type. Following the organizational restructuring in April 2023, the Tokyo Machine Center became a department within our company. Therefore, these improper acts through the Tokyo Machine Center were considered internal profit/loss transfers within the Company. They merely represented profits generated at the field level being transferred to the Tokyo Machine Center. Since cross-period profit/loss adjustments are not possible, no financial accounting impact was deemed to exist. Conversely, prior to the organizational restructuring, the Tokyo Machine Center belonged to the subsidiary Soil Technica. Therefore, for transactions spanning both the Company and Soil Technica, cross-period profit/loss adjustments were possible. For transactions spanning both the Company and Soil Technica and crossing fiscal periods, while they are eliminated in the consolidated financial statements through the elimination of intercompany transactions and the elimination of offsetting receivables and payables, the impact on period profit/loss remains in the non-consolidated financial statements. Consequently, these were treated as having a financial accounting impact and were included in the calculations.

For the Cost Transfer Type between projects (①), since all recognized transactions involved cost transfers between projects within the same fiscal year, they were deemed to have no financial accounting impact. For the Pool Fund Reserve Type (②), all recognized transactions were between our company and Soil Technica, and the timing of pooling was clear. Conversely, since the purpose and timing of expenditure for the pooled funds were unclear, this Committee treated the entire pooled amount as costs to be reversed for the purpose of calculating the maximum potential financial accounting impact for transactions with unclear purpose or timing of expenditure.

Furthermore, among the actions confirmed through DF investigations and those declared via self-reporting sheets, the discretionary claim adjustment type (③) was also confirmed. Regarding this point, according to statements from Machine Center personnel interviewed, such actions by the Machine Center were routinely negotiated between the field and the Machine Center. Therefore, these were not necessarily done to reallocate costs but included cases where they simply reduced the invoiced costs. On the other hand, among such cost reductions, it is conceivable that some cases involved not invoicing or reducing invoiced costs to sites with low profits, on the premise that the costs would later be overpaid and compensated at another site. In such cases, since it would be possible to link the original project to the project receiving the transfer, it could potentially be included in the aggregation as a cost transfer type between projects. However, the Committee's investigation did not identify any cases that could be clearly classified as such. Therefore, for cases where the Machine Center does not bill sites or reduces billed costs, it is difficult to determine on a case-by-case basis whether this is simply a reduction in billed costs or something else. Consequently, these were excluded from the aggregation.

(3) Transactions within cost item transfers for the same project suspected of private use

As described above, the cost item transfers conducted by Mr./Ms. T, then Manager of the Soil Improvement at the Kitakanto Branch, involved billing golf competition prizes (which should have been treated as entertainment expenses) under different names (e.g., mat balance).However, the items included goods such as "golf shoes" that were unlikely to be considered golf prizes. This committee therefore deemed these cost reclassifications to be for private use rather than golf prizes. The full amount of ¥273,000 was treated as a cost to be reversed and included in the tally as having an impact on financial accounting.

(4) Impact Amount (All figures in millions of yen; △indicates debit)

A Impact on Profit/Loss in the Most Recent Five Years of Consolidated Financial Statements (Net Income Before Tax Adjustments)

FY2021/3	FY2022/3	FY2023/3	FY2024/3	FY2025/3
3	0	－	1	－

B Impact on Profit and Loss (Pre-tax Net Income) in our company's Standalone Financial Statements for the Past 5 Years

FY2021/3	FY2022/3	FY2023/3	FY2024/3	FY2025/3
6	4	0	1	－

C Impact on Profit and Loss (Pre-tax Net Income) in Soil Technica's Standalone Financial Statements for the Past 5 Years

FY2021/3	FY2022/3	FY2023/3	FY2024/3	FY2025/3
△3	△4	△0	－	－

7 Investigation by this Committee into Suspected Improper Conduct Beyond Soil Improvement

The Committee's investigation revealed the improper conduct described above concerning the Company's Soil Improvement Unit. The Committee further investigated whether similar accounting irregularities occurred in overseas projects managed by the Civil Engineering Unit and the International Department of the Soil Improvement Unit.

(1) Civil Engineering

As outlined above, since the improper practices executed in this case—such as pool funds, cost reallocation, and expense category reallocation—were all carried out with the cooperation of cooperating contractors, the Committee implemented a data filter (DF) to investigate communications with 23 companies suspected of being involved in these improper practices, based on the email data of all our officers and employees. Specifically, all emails containing domains associated with cooperating contractors were extracted from the email data of all officers and employees and investigated.

As a result, an email was discovered in July 2021 from X Company addressed to two construction site managers belonging to the Civil Engineering Department of the Osaka Branch, stating, "We will send the corrected invoice." Since cost transfers between projects managed by these two site managers were suspected, this Committee conducted interviews and investigations with the site managers named as recipients in that email.

The interview investigation revealed that this correspondence concerned a situation where X Company had placed orders for goods for projects being conducted simultaneously. X Company had mistakenly billed the wrong project for construction supplies delivered to each site and was requesting the correct billing. It was thus confirmed that this did not constitute cost shifting.

Additionally, regarding the Project ●● (Yokohama Branch), in June 2020, X Company sent an email to Mr./Ms. ●●, who was the Construction Manager at the time and belonged to the Construction Section, Civil Engineering Department, Chubu Branch. The email discussed splitting the billing for site materials totaling just under ¥1,400,000 (lightweight shackles, wire, and other site materials totaling just under ¥1,400,000). The email discussed splitting the request into three separate invoices, each under ¥500,000, and coordinating this division. When confirmed with Mr./Ms. ●●, it was stated that at the time, requests under ¥500,000 did not require drafting a purchase request to the Purchasing Department. To avoid this administrative hassle, it appears Mr./Ms. ●● deliberately split the request into three parts to keep each under ¥500,000, coordinating this with X Company. This Committee confirmed that all the above orders were approved at the worksite level, each within the ¥500,000 limit. Although these orders do not appear to involve transfers to other construction sites, they could constitute a violation of the then-applicable Purchasing Management Regulations 5.3.2(3)①. Specifically, while orders under ¥500,000 did not require a purchase request form under these regulations, splitting orders was not permitted; the total estimated amount was the basis for judgment. Therefore, this could be considered circumvention of the regulation.

Otherwise, the DF results did not uncover any emails or other evidence suggesting improper conduct by individuals involved in Civil Engineering Unit. No responses in the anonymous survey raised specific suspicions of improper conduct regarding civil engineering projects.

(2) Regarding overseas projects managed by the International Department of the Soil Improvement Unit

Similarly, the DF conducted by this Committee revealed one email suggesting that a supervisor instructed an employee to claim reimbursement for workwear expenses paid out of pocket as part of another project's expenses in relation to overseas projects. We interviewed individuals involved in this exchange and investigated. The investigation confirmed that the workwear was also used in the new project (the one for which the employee was instructed to resubmit the claim), and thus the expense handling was not deemed improper.

The anonymous survey also revealed no responses that specifically suggested improper transactions related to overseas construction projects.

8 Suspicions Regarding Profit Shifting in the International Department

(1) Origin

Upon conducting a data forensics (DF) analysis of emails sent and received by officers (including executive officers) within this Committee, it was found that on January 31, 2025, the Manager of the International Department of the Soil Improvement Unit sent a written document (PDF file) to the entire International Department mailing list. This document, sent in response to the discovery of the 2024 case, contained Vice President Ohbayashi's request for full cooperation should future investigations be required and reaffirmed the importance of compliance. The body of this email from the International Department Head stated: "Regarding overseas projects, suspicions of [underreporting] have been raised concerning profit deferrals (Project ●●, Project ●●) for the 78th fiscal year." Since suspicions of underreporting related to profit deferrals were discovered, interviews were conducted with the International Department Head of the Soil Improvement Unit who sent the above email and two personnel from the Finance Department of the Administration Division to investigate. The following facts were uncovered.

(2) Details and Results of the Allegation

The content referenced in the International Department Head's email mentioned in (1) above was that the company had undergone a tax audit (hereinafter referred to as the "International Department Tax Audit") due to the National Tax Agency pointing out a suspicion that construction costs for ongoing overseas projects had been improperly inflated to suppress current-period profits (thereby deferring profits to the next period).

A Project Overview

The project overview is as follows. During the period subject to the International Department Tax Audit (fiscal year ending March 2024), all projects were uncompleted.

Project Name	●● Construction	●● Construction
Construction location (country name)	Bangladesh	Indonesia
Responsible Department	Soil Improvement Unit, International Department	

Construction Period	June 24, 2023 to August 2, 2024	January 29, 2023 toJuly 24, 2024

B Overview of Each Issue

(A) Regarding the ●● Construction Project

As of the end of March 2024, the contract price for the Project ●● was 1,333,000,000 yen, and the total construction cost for the period (actual budget) was recorded as 1,175,008,488 yen. The current period's completed construction revenue was recorded at 1,019,200,992 yen.

However, during the International Department Tax Audit, the company received a notice pointing out that the construction contract price at the end of the same period should have been 1,340,000,000 yen, representing an understatement of 7,000,000 yen. This was based on the fact that emails between the construction site manager and the client's representative confirmed a decision to increase the contract price had been made around March 2024.

Furthermore, regarding the total construction cost at the end of the current period, Ramadan (the Islamic fasting period) was scheduled locally from March to April 2024. Therefore, around February 2024, it was decided to estimate the period until completion with an additional one-month buffer from the initial forecast. Accordingly, the total construction cost at the end of the period was revised upward by one month's worth. However, the International Department Tax Audit also pointed out that the total construction cost at the end of the period should have been 1,114,630,591 yen, representing an overstatement of 60,377,897 yen.

Consequently, the completed construction revenue for the period that should have been recorded at the end of the same period was pointed out as 1,080,051,669 yen, resulting in an understatement of 60,850,677 yen.

(B) Regarding the ●● Project

At the end of the fiscal year ending March 2024, the contract price for the Project ●● was 1,103,684,806 yen, and the total construction cost for the period was 771,217,098 yen, with completed construction revenue for the period recorded at 620,546,872 yen.

However, during the International Department Tax Audit, it was pointed out that the contract price should reflect revisions to the contract unit price and projected quantities due to increased construction volume for the CDM (Deep Mixing Process) method, which was expected to be completed in mid-April 2024. Consequently, the contract price at the end of the same period should have been 1,161,343,694 yen, resulting in an understatement of 57,658,888 yen.

Furthermore, regarding the total construction cost at the end of the current period, similar to the Project ●●, the period until completion was estimated with a margin beyond the initial forecast, resulting in an upward revision of the total construction cost at the end of the current period. However, the International Department Tax Audit also pointed out that the total construction cost at the end of the same period should have been 752,791,515 yen, indicating an overstatement of 18,425,583 yen.

Consequently, the completed construction revenue for the current period that should have been recorded at the end of the same period was pointed out as 685,460,409 yen, resulting in an understatement of 64,913,537 yen.

C Result

For the two projects mentioned above, a total of 125,764,214 yen in completed construction revenue for the current period was underreported, resulting in additional taxes of 32,182,900 yen in base tax, 3,218,000 yen in underreporting surcharge, and 924,100 yen in delinquency tax. The Company argued its "differing opinion" to the National Tax Agency, but ultimately accepted the findings and filed an amended return for the fiscal year ended March 2025.

(3) Status of Reporting to Each Meeting

A Initial Response by Each Department

Around January 2025, the Accounting Section of the Finance Department, Administration Division, received the above-mentioned findings from the National Tax Agency regarding the two construction projects. Consequently, the Finance Department (primarily Mr. C3) collaborated with the International Department to conduct an investigation aimed at assessing the impact on the financial results.

B Reporting Status to Management Meetings and the Internal Investigation Committee

According to Mr./Ms. C3, the impact amount on the financial results was determined by March 2025 at the latest, it was stated that the issues with the two projects mentioned above were explained during the monthly performance report [37]. However, his/her own recollection appears uncertain, and there is no evidence found in the report materials used at the management meetings held in February, March, and April of the same year that he/she provided an explanation regarding these issues. Furthermore, according to the Director in charge of the Management Division, while he/she stated that he/she may have received a report on the matter from the Finance Department, the timing was unclear, and he/she could not recall with certainty whether he/she received an explanation at the management meeting held around March of the same year.

Furthermore, during the same period (January 27 to March 31 of the same year), an internal investigation was conducted by the Internal Investigation Committee. However, the Finance Department did not report the problems with the two projects mentioned above to the Internal Investigation Committee, and the Internal Investigation Committee was not aware that the problems had even occurred.

C Reporting Status to the Board of Directors, Risk Management Committee, and Audit Committee

Between March and July 2025, there is no evidence that the issues with the two construction projects mentioned above were reported to the Risk Management Committee or the Audit and Supervisory Committee [38].

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[37] Furthermore, at the board meeting held on April 25, 2025, a report was made on the operational status of the Soil Improvement Unit's overseas business for the fourth quarter of fiscal year 2024. During this Committee's hearing, it was suggested that Mr./Ms. C3 may have confused this board meeting with a management meeting. However, based on the audio recording of the relevant board meeting, there is no evidence that he made such an explanation.

[38] Specifically, regarding the Audit and Supervisory Committee's reporting status, both the outside audit committee member (a certified public accountant) and Mr./Ms. C of the Audit Department stated during this committee's hearing that they did not clearly understand the issues with the two projects mentioned above at the time. It is highly probable that the Audit and Supervisory Committee had not received a report on these issues at that time.

Furthermore, there is no evidence that the issues were reported to the Board of Directors until June of the same year. However, during the Board of Directors meeting held on July 30 of that year, the Finance Department reported the National Tax Agency's findings regarding these problems and stated that amended tax returns had already been filed. Regarding this point, during the Committee's hearing, the President and Representative Director stated that he likely first became aware of the issues with the two projects mentioned above at this Board of Directors meeting. He also stated that he reprimanded the Finance Department Manager for the delayed information transfer.

Considering the status of the materials and statements from relevant parties, it is highly probable that the Finance Department (or the Administration Division) had not reported the issues with the two projects mentioned above to any of the relevant governance bodies (the Board of Directors, the Risk Management Committee, or the Audit and Supervisory Committee) by the Board of Directors meeting on July 30, 2025.

(4) Determination of Improper Conduct

A Underreporting Pointed Out by the National Tax Agency

The two construction projects identified by the National Tax Agency as underreported were, as described above, both cases where the projected completion timing was estimated conservatively. This was due to factors such as the anticipated completion period coinciding with Ramadan, leading to longer construction periods and corresponding construction costs being recorded. The agency determined that these cost calculations were overly conservative, suppressing profits that should have been recognized in the current period.

While the identification of underreporting totaling approximately ¥125 million for the two projects combined could be criticized as indicating a lack of prudence in calculating construction costs for the period, the Committee's investigation found no evidence of accounting fraud, such as intentionally suppressing profits beyond this amount. Therefore, it is determined that this action itself cannot be deemed inappropriate conduct.

B Reporting to the various meeting bodies

On the other hand, as described in (3) above, it cannot be said that reports to each meeting body regarding the tax investigation by the National Tax Agency due to suspicions of underreporting were made in a timely and appropriate manner.

(A) Company Regulations

Our Compliance Violation Response Manual defines situations where "suspected violations of laws and regulations are identified during a tax audit" as constituting a "compliance violation" (Company Compliance Violation Response Manual 2.1③). It stipulates that any person who becomes aware of such an occurrence, or who receives notification thereof, must immediately report it to the Head of the General Affairs Department via the emergency contact route (Ibid. 3.(1)).Furthermore, the Head of the General Affairs Department, upon receiving notification of a "compliance violation," must promptly conduct an initial investigation or verification with the cooperation of relevant departments and communicate the details of the compliance violation to the Risk Management Committee members, outside directors, the Audit and Supervisory Committee, and the Internal Audit Department (Ibid. 3.(2)).According to the emergency contact route outlined in the appendix to the Compliance Violation Response Manual, when the Finance Department Manager receives notification of a compliance violation, they must promptly report it to the Head of the Management Division. The Head of the Management Division must then report to the President, members of the Risk Management Committee, outside directors, and members of the Audit and Supervisory Committee.

Furthermore, when the President receives a report of a compliance violation, the Risk Management Committee Regulations stipulate that the President shall convene the Risk Management Committee as its chairperson, as necessary.

(B) Failure to Report the International Department Tax Audit

The International Department tax audit involved a National Tax Agency investigation into suspected underreporting amounting to approximately ¥125 million. Had the matter been reported and communicated appropriately according to the Compliance Violation Response Manual, it would have been deemed a case warranting convening of the Risk Management Committee as either an "Occurrence of a Serious Incident such as a Scandal" or a "Matter the Chairperson Deems Necessary"(Risk Management Committee Regulations Article 6, Items 5 and 6).

However, Mr./Ms. C3, who was assigned to the Finance Department at the time and handled the international tax audit, as described above, it is highly probable that he did not report to any of the relevant committees (Board of Directors, Risk Management Committee, or Audit and Supervisory Committee) by the Board meeting on July 30, 2025. Furthermore, while he/she explained the matter at a Management Meeting by March 2025, his/her recollection is unclear, and there is no evidence in the Management Meeting materials indicating the Finance Department Head provided an explanation of this issue. Moreover, there is no evidence that the matter was reported to the Head of Administration, to whom it should have been reported immediately according to the Compliance Violation Response Manual.

Therefore, it should be determined that Mr./Ms. C3, who was aware of the international department tax audit—a situation constituting a "compliance violation"—and handled the matter, failed to report it in accordance with the Compliance Violation Response Manual, constituting inappropriate conduct in violation of internal regulations.

C Regarding Reporting to the Internal Investigation Committee

Furthermore, the International Department Tax Audit was not reported to the Internal Investigation Committee, which was conducting its own investigation at precisely the same time. Consequently, the Internal Investigation Committee was unaware that this issue had even arisen.

The International Department Tax Audit, like the fictitious orders in the Soil Improvement business that were the primary focus of the Internal Investigation Committee's investigation, is also an event suspected of accounting fraud within the International Department belonging to the Soil Improvement Division. Moreover, since the impetus for the Internal Investigation Committee's inquiry into the 2025 case originated from a National Tax Agency finding, it was imperative that the International Department Tax Audit be reported to the committee. The committee should have been fully engaged in deliberating whether this investigation should also be included within its scope.

Therefore, the failure to report the International Department Tax Audit to the Internal Investigation Committee is also deemed inappropriate.

Section 2 Findings Regarding the Committee's Governance and Management Structure

1 Specific Details and Implementation Status of Recurrence Prevention Measures for the 2022 Case

(1) Formulation and Content of the Recurrence Prevention Action Plan

The outline of the recurrence prevention measures adopted by the Company in response to the 2022 case is as described in Chapter 3, Section 1, Item 1(1).

However, at a board meeting held on July 25, 2022, the Management Headquarters formulated an action plan for recurrence prevention measures and specified the details of these measures. The content of the action plan for recurrence prevention measures is as follows:

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Item	Specific Details	Responsible Department
1. Thorough Implementation of Compliance Policy	①Disseminate the President's Statement throughout the company	General Affairs and Human Resources Department
	②Disseminate the President's Notice to executives and certain managerial staff	
2. Implementation of Compliance Training	①Training for Construction Department Personnel	Finance Department
	②Company-wide Management Training	General Affairs and Human Resources Department
	③Tiered Education and Training	General Affairs and Human Resources Department
3. Strict Disciplinary Action Against Involved Parties and Internal Announcement	Implementation of Disciplinary Action and Internal Announcement	General Affairs and Human Resources Department
4. Expansion of the Whistleblower System to Partner Companies	①Revision of the Corporate Ethics Helpline Operating Regulations	General Affairs and Human Resources Department
	②Internal Notification	
	③External Notification	
5. Strengthening Internal Control Procedures	① Formalize fraud detection methods for ordering procedures handled by the Construction Division and Purchasing Department	Finance Department
	② Document rules for issuing transfer slips to prevent fraudulent construction project transfers	
	③ Incorporate post-transaction verification of actual existence into operations and make it subject to internal control procedures to prevent fictitious or disguised orders	
6. Strengthening Operational Audits	①Document monitoring during operational audits	Audit Department
	②On-site inspections during field visits	
	③Re-confirmation of independent monitoring within business divisions	
7. Progress Management of Recurrence Prevention Measures	① Regularly monitor whether recurrence prevention measures are being implemented systematically based on the recurrence prevention measure schedule, and implement improvements or corrections as necessary	Management Headquarters

	②Report progress to the Board of Directors for the initial one-year period. Thereafter, report operational status as one item under the internal control system's development and operation status to both the Board of Directors and the Risk Management Committee	

(2) Implementation Status of Recurrence Prevention Action Plan

A Thorough Implementation of Compliance Policy

On June 27, 2022, the President's Statement and President's Notice were disseminated throughout the company. This called for thorough compliance and recurrence prevention, outlined the recurrence prevention measures, and instructed all officers and employees to ensure their thorough implementation.

B Implementation of compliance training

As shown in the table above, the training conducted by the Company as part of the recurrence prevention measures implementation plan is divided into three categories: (a) training for Construction Department personnel, (b) company-wide management training, and (c) tiered educational training.

(a) Regarding training for Construction Department personnel: In September 2022, training was conducted for Construction Section Managers at the Civil Engineering Department Meeting, the Soil Improvement East Region Construction Department Meeting, and the Soil Improvement West Region Construction Department Meeting. All targeted personnel completed the training. Additionally, from March to May 2023, training was provided to construction site managers via video streaming. The target audience for this training comprised 165 construction site managers from the Civil Engineering Unit and the Soil Improvement Unit. As of July 31, 2023, 103 participants had completed the training, representing a participation rate of approximately 62%. Subsequently, individual follow-up was conducted to encourage those who had not yet completed the training to participate, and ultimately, all targeted individuals completed the training. No participant survey was conducted for this training.

Next, regarding (b) company-wide management training: After conducting compliance training from October to November 2022 (all eligible participants completed this training), management submitted pledges to the President committing to take the lead in embedding a "Compliance First" mindset within the company. A participant survey was conducted for this training.

Finally, regarding (c) tiered educational training: Specifically, a compliance training program was introduced for the annual new manager training and for training provided to specific promoted personnel [39], including construction site managers. Participant surveys were conducted for this training. For those who did not attend, individual training or attendance in the following year was arranged.

[39] Under our personnel system, there is the concept of role grades (the basis for determining salary, etc.), with most construction site managers holding role grades PG1 to PG4. "Specific promoted personnel" refers to those promoted to PG3 and PG4. (c) Construction site managers are included among participants in tiered training programs.

Noteworthy is the training content for (a) Construction Department personnel and (c) tiered educational training. These trainings were conducted using the same materials, which covered case studies from the 2022 case, the impact on our company if fraudulent accounting recurred, explanations of recurrence prevention measures, the mechanisms of fraud occurrence (the so-called three elements: motive, opportunity, and rationalization), and examples of accounting fraud at other companies, as well as our internal whistleblowing system and compliance framework. However, no explanation was provided regarding preventive measures to avoid compliance violations tailored to the daily tasks construction site managers perform (e.g., ordering and payment processing for cooperating contractors).

C Strict Disciplinary Action Against Related Parties and Internal Announcement

The Rewards and Punishments Committee was convened on June 13 and 17, 2022. Disciplinary actions were imposed on three individuals involved in the 2022 case and one superior of these individuals: Mr./Ms. ●● of the Chubu Branch Soil Improvement Construction Department (as of June 13, 2022). Additionally, the basic monthly remuneration of Mr./Ms. ●● of the Chubu Branch (as of the same date) and Mr./Ms. ●● of the Soil Improvement Construction Department (as of the same date) was reduced by 5% for one month.

Furthermore, although not stipulated in the aforementioned recurrence prevention plan, Mr. Okuda, who was President and Representative Director at the time, and the then Managing Executive Officer serving as the Director in charge of the Soil Improvement Business Unit, voluntarily reduced their basic monthly remuneration by 10%.

Details of these disciplinary actions and other measures were disclosed internally via the Company's intranet through a notice dated June 27, 2022.

D Expansion of the Internal Reporting System (Corporate Ethics Helpline) to Partner Companies

Effective October 1, 2022, the Company revised its Corporate Ethics Helpline Operating Regulations. The helpline was expanded to include officers, employees, and retirees of partner companies as users. The system was revised to accept reports concerning violations of laws and regulations, or potential violations, by individuals associated with the Company Group.

Regarding awareness of these changes, internal awareness (including within our group companies) was promoted through the training sessions for Construction Department personnel and compliance training programs mentioned in (1) above. Specifically, awareness of the internal reporting system was promoted in these training programs.

Additionally, awareness of the revision to the Corporate Ethics Helpline Operating Regulations was promoted at a meeting held on March 7, 2023, with group companies (referred to internally as the "Expanded Business Division Liaison Meeting").

For external communication, the expansion of the internal reporting system was communicated at meetings held nationwide with partner companies (referred to by our company as the "Safety and Health Cooperation Conference"). Furthermore, the expansion of the internal reporting system was communicated on the partner company website starting October 3, 2022.

E Strengthening Internal Control Procedures

To strengthen internal control procedures, we planned enhancements from both proactive (pre-control) and reactive (post-control) perspectives.

First, regarding the enhancement of proactive control (pre-control), we planned to: (a) formalize fraud check methods for ordering procedures by the Branch Construction Departments and Purchasing Department, and (b) document rules for issuing transfer slips to prevent improper project-to-project transfers.

Regarding (a), the Finance Department, responsible for implementing these recurrence prevention measures, had anticipated having the Purchasing Department formalize the specific fraud detection methods. Specifically, it was envisioned that experienced Purchasing Department staff, possessing the know-how and experience to identify problematic orders, would compile such expertise, formalize the fraud detection methods, and share them within the Purchasing Department. However, the Finance Department never requested such formalization from the Purchasing Department, and consequently, the fraud detection methods for the ordering procedures were never formalized.

Regarding (b), Mr. Kawachi, the Head of the Administration Unit, had originally planned to document the existing rules for issuing transfer slips within the company. However, the Finance Department decided not to implement this documentation, and consequently, the rules for issuing transfer slips were never documented. Regarding the reason for deciding not to document these rules, Mr./Ms. C3 of the Finance Department stated, "We did not want to create rules at a low level, such as 'Do not steal other people's property.'"

Furthermore, within the Management Division, no one pointed out that (a) the ordering procedures by the Branch Construction Departments and Purchasing Department lacked documented fraud detection methods, and (b) rules for issuing transfer slips to prevent improper project-to-project transfers had not been documented.

On the other hand, regarding the strengthening of reactive control (post-event controls), as described in 4(3)(b) below, after the 2022 case, the Business Division Management Department incorporated verification of the existence of orders into its operations.

F Strengthening Operational Audits

Following the 2022 case, the Audit Department began conducting its own verification of order authenticity, while the Business Division Management Department was tasked with reconfirming the authenticity of orders it independently verified. Details are as described in 4(3)(b) below.

G Monitoring Implementation Status of Recurrence Prevention Measures

The implementation status of recurrence prevention measures was managed by each department clearly stating progress status and future challenges in a progress management table, with the Deputy Head of the Administration Unit consolidating reports from each department. The Management Division reported the implementation status of recurrence prevention measures to the Board of Directors, attaching the progress management table as a reporting document.

Details regarding the specific reporting to the Board of Directors are as described in 2(3)(c) below.

(3) Summary

The implementation status of the recurrence prevention measures plan for the 2022 case is as described above. Regarding the ordering procedures by the Base Construction Department and Purchasing Department mentioned in (e) above, the "documentation of fraud detection methods" and "documentation of rules for issuing transfer slips to prevent fraudulent construction transfers" remain unimplemented to date.

2 Board Monitoring

(1) Criteria and Procedures for Director Nomination

The Company has established policies, procedures, and criteria regarding director nominations in internal documents. It sets specific nomination criteria for director candidates (including outside director candidates), such as possessing the appropriate character and insight for the role, as well as extensive experience and high capability.

However, according to Mr. Okuda, the Representative Director and President, in practice, candidates for executive director positions are often individuals who have served as Managing Executive Officers. Furthermore, for director candidates serving as full-time Audit and Supervisory Committee members, candidate selection considers balance to avoid bias toward specific business divisions or other areas of origin.

Based on these criteria and considerations, Mr. Okuda prepares a proposal listing director candidates while informally seeking opinions from outside directors who are members of the Nomination and Compensation Advisory Committee. At this stage, the President and Representative Director specifies only one candidate for each director position (e.g., when nominating a candidate for a full-time Audit and Supervisory Committee member, the proposal lists only one candidate, not multiple). The Nomination and Compensation Advisory Committee then deliberates on the nomination of director candidates based on this list and reports its deliberation results to the Board of Directors. (It is noted that director candidates who are also Audit and Supervisory Committee members are interviewed by the Audit and Supervisory Committee prior to the Nomination and Compensation Advisory Committee's deliberation.)

Throughout this process of director candidate nomination, objective records show no evidence that the Nomination and Compensation Advisory Committee or the Audit and Supervisory Committee discussed the selection of director candidates presented by Mr. Okuda. Furthermore, according to the minutes of the Nomination and Compensation Advisory Committee, there is no indication that any resolution concerning the nomination of director candidates was ever rejected.

Based on the above, it appears that, in practice, the President and Representative Director nominates director candidates, and those candidates are then elected as directors.

(2) Discussion Status at Board

A Recording of Deliberations

The Board of Directors generally convenes once a month, with each meeting scheduled for one to two hours. Materials distributed to directors are prepared in advance by the General Affairs Section of the General Affairs Department within the Administration Division, which also handles Board Secretariat duties. Internal directors explain the contents to outside directors prior to the Board meeting. As internal directors routinely exchange opinions among themselves, discussions at the Board meeting primarily feature comments from outside directors.

B Recording of Deliberations

The minutes of the Company's Board of Directors meetings only record the conclusions of each agenda item. They do not include specific details of reports or individual remarks made by attendees, making the course of deliberations unclear. While the law requires minutes to include "a summary of the course of deliberations"[40], the Company has historically followed this practice. Neither the Board of Directors nor the Board Secretariat (General Affairs Department, Administration Division) has ever raised the issue of improving this practice.

[40] Enforcement Regulations of the Companies Act, Article 101, Paragraph 3, Item 4

The General Affairs Department of the Administration Division prepares and maintains separate Board of Directors memos documenting the main points of directors' remarks, distinct from the aforementioned minutes. However, numerous agenda items contain no record of directors' remarks whatsoever. Consequently, these memos do not provide a complete picture of all deliberations during Board meetings. Furthermore, as they lack the signatures and seals of individual directors, their accuracy cannot be guaranteed, making them difficult to consider sufficient as supplementary materials to the minutes.

The Company records its Board of Directors meetings. While all recordings from meetings held in fiscal year 2022 are preserved, none from fiscal year 2023 meetings are retained. Only partial recordings exist for fiscal years 2024 and 2025 (specifically, the meetings held on January 27, 2025, April 24, and May 27, 2025). Based on the preserved recordings, the aforementioned Board memos contain verbatim and reasonably faithful transcriptions of the attending directors' statements (excluding explanations of agenda items or reports themselves). Therefore, the following descriptions of Board deliberations are primarily based on these memos.

(3) Situation After the 2022 Case Was Discovered

A Report to the Board of Directors

The 2022 case was discovered around March 2022.The first report concerning the 2022 Case was made at the board meeting held on April 25 of the same year. According to the minutes of that board meeting, Mr. Kuroda, an outside audit committee member, expressed the opinion that the scope of the investigation should be set with a focus on preventing recurrence. Mr. Terasawa, a former outside audit committee member, expressed a sense of crisis regarding the 2022 Case and demanded strict measures.

Subsequently, at the board meeting held on June 24 of the same year, the investigation report (final report) on the 2022 case was submitted. Until the final investigation report was presented, no progress reports on the investigation were provided to the board (according to the investigator's explanation, the 2022 case was deemed to have low monetary significance, and it was not considered necessary to report it to the board) Therefore, at that Board meeting, Mr. Kuroda expressed his opinion that, given the seriousness of the matter, he should have been consulted beforehand rather than receiving a post-facto report.

At the same board meeting, in addition to the above, discussions were held regarding strengthening preemptive controls, one of the recurrence prevention measures listed in the investigation report. Furthermore, Mr. Ohbayashi, the director in charge of the Soil Improvement Business Unit, stated that he would take the lead in thoroughly promoting compliance and other measures.

B Formulation of Preventive Measures

Subsequently, an outline of the recurrence prevention measures was announced internally via a President's Notice dated June 27, 2022 ("Strict Prohibition of Improper Accounting Practices and Reaffirmation of Compliance").

Then, at the Board of Directors meeting held on July 25, 2022, a report was given on the implementation plan for the recurrence prevention measures. At this Board meeting, Mr. Kuroda, an Outside Audit Committee Member, raised questions regarding the recurrence prevention measures, specifically about the implementation method for compliance training and the documentation of rules for issuing replacement vouchers and the codification of fraud detection methods, which were cited as measures to strengthen internal control procedures.

It should be noted that the formulation of the recurrence prevention measures implementation plan was primarily handled by the Management Division, and the Board of Directors was not involved in this process.

C Monitoring the Implementation Status of Recurrence Prevention Measures

Following the aforementioned Board meeting, a report on the progress of recurrence prevention measures and future challenges was presented at the Board meeting held on January 30, 2023. It was reported that the recurrence prevention measures were progressing largely according to plan, that there were no significant issues regarding the matters considered future challenges, and that a final report on the establishment and operational status of the recurrence prevention measures based on this implementation plan was scheduled for the Board meeting to be held in July 2023. Thereafter, reports would be made as necessary during the annual April Board of Directors meeting when reporting on the status of internal control system development and operation. As no recording data of the Board of Directors meeting exists, it cannot be confirmed whether directors made comments regarding this report, such as confirming the specific implementation status of recurrence prevention measures or expressing opinions on future progress.

Subsequently, at the Board of Directors meeting held on July 31, 2023, it was reported that the planned recurrence prevention measures were largely complete, and that regular reporting to the Board of Directors would conclude with that meeting. The final report stated that no questionable events had been detected in internal control procedures or operational audits. It further explained that the Audit and Supervisory Committee had confirmed during on-site inspections of each location that the recurrence prevention measures were recognized and progressing. Since there were no findings from the accounting auditor, it was assessed that compliance awareness had steadily permeated the organization and that the reinforcement measures were effective. However, as described in Section 1 above, at this point, the following issues remained:

Department regarding ordering procedures, and the documentation of rules for issuing transfer slips to prevent improper cost transfers between projects had not been completed. Regarding the implementation status of these recurrence prevention measures, no recording data of the Board of Directors meeting exists, and based on the Board meeting minutes, it cannot be confirmed that any specific opinions were raised by the directors.

Regarding the incomplete implementation of some countermeasures, Mr. Kawachi, the Director in charge of the Administration Division (which formulated the countermeasures), stated at the final report stage that remaining future tasks would be handled responsibly by each department. He believed that if any problems arose, they would likely be reported during the annual April Board of Directors meeting within the report on the status of internal control system development and operation [41].

Following this process, monitoring of the recurrence prevention measures for the 2022 case concluded with the report to the Board of Directors on the same day.

[41] However, no one, including Mr. Kawachi of the Management Division, has stated that they confirmed the implementation or progress status of the future tasks remaining at the final reporting stage with each department after July 31, 2023.

Thus, objective records such as board meeting recordings and meeting minutes show no indication that the board, when receiving progress reports on recurrence prevention measures, requested explanations beyond the reports or demanded submission of materials to verify the implementation status of individual measures. Similarly, there is no evidence that the board proactively sought explanations or reports from investigators or others regarding the implementation status of recurrence prevention measures at any time other than the two aforementioned board meetings.

D Monitoring of the Penetration Level of Recurrence Prevention Measures

Beyond the above, there is no evidence that the Board of Directors conducted monitoring regarding the penetration level of the recurrence prevention measures, such as confirming the effectiveness of compliance training or the establishment of the internal whistleblowing system. It also appears that individual directors did not recognize the need to confirm the penetration level after implementing the recurrence prevention measures, merely receiving progress reports.

(4) Situation After the 2024 Case

A Status before reporting to the Board of Directors

On December 6, 2024, the 2024 case was uncovered during a national tax investigation. At the extraordinary Risk Management Committee meeting held on December 23, 2024, a report on the overview of the 2024 case was presented, and discussions were held regarding the establishment of an internal investigation committee and future response policies. Given the seriousness of this discovery of inappropriate conduct following the 2022 case, the Risk Management Committee considered both an internal investigation committee and a third-party committee as potential structures for the investigation committee, with the premise that the committee would include at least one outside member. It was also considered that while the committee would start as an internal investigation committee, it could be switched to a third-party committee once the true nature of the problem became clear.

Subsequently, at the extraordinary Risk Management Committee meeting held on January 23, 2025, the proposed structure for the internal investigation committee was discussed. This included appointing an outside member as chairperson and adding Mr. Kuroda, an outside audit committee member, as a committee member. It was also decided to proceed with the investigation aiming to submit the final report to the Board of Directors by March 2025. Furthermore, regarding preliminary investigations until the Internal Investigation Committee is established and cooperation with investigations directed by the Internal Investigation Committee, the Company will form a secretariat to handle these matters. Therefore, it was decided on the same day to establish an Emergency Response Headquarters.

B Report to the Board of Directors and Establishment of an Internal Investigation Committee

Based on the findings of the third extraordinary Risk Management Committee meeting held on January 23, 2025, the Board of Directors convened on January 27 and resolved to establish an Internal Investigation Committee.

The composition of the Internal Investigation Committee is as stated in the Internal Investigation Committee Report. It should be noted that three attorneys from our legal counsel, ●● Law Firm, served as investigation assistants, and that Mr. Kawachi, the Director in charge of the Management Division, attended as an observer to the Internal Investigation Committee in his capacity as Head of the Emergency Response Headquarters.

Although the specific deliberative process regarding the composition of the Internal Investigation Committee is unclear, no doubts were raised regarding the committee's independence concerning the inclusion of Mr. Kuroda, an outside audit committee member, as a committee member, or the role of attorneys from the advisory law firm as investigation assistants (and, by extension, the decision to conduct the investigation as an internal investigation committee rather than a so-called third-party committee). At the same board meeting, there was discussion about whether to disclose the Internal Investigation Committee externally. Ultimately, following a recommendation from KPMG AZSA LLC, the company confirmed with the Tokyo Stock Exchange and disclosed the establishment of the Internal Investigation Committee on February 7 of the same year.

Subsequently, a letter was received from a shareholder requesting an investigation compliant with the "Guidelines for Third-Party Committees in Corporate Misconduct Cases" formulated by the Japan Federation of Bar Associations. However, the Board of Directors determined that there were no issues with the independence of Outside Audit and Supervisory Committee Member Kuroda, and that the Internal Investigation Committee was substantially compliant with the guidelines. Under this understanding, the Internal Investigation Committee continued its investigation. Subsequently, at the 4th Risk Management Committee meeting held on March 25, 2025, the draft investigation report was deliberated, and the investigation report was submitted to the Board of Directors meeting held on March 31 of the same month.

C Receipt of the Investigation Report

At the Board of Directors meeting held on March 31, 2025, the Board of Directors received the investigation report from the Internal Investigation Committee. Subsequently, the detailed implementation plan for recurrence prevention, which was deliberated at the 1st Risk Management Committee meeting held on April 23 of the same year, was approved at the Board of Directors meeting held on the 25th of the same month.

At these Board meetings, there were no opinions suggesting the scope of the Internal Investigation Committee's inquiry should be expanded, and no additional independent investigations were conducted beyond the internal investigation.

(5) Status of Risk Management Committee Actions

A Response to the 2022 Incident

As stated above, the Company's Risk Management Committee Regulations stipulate that "response policies and recurrence prevention measures for major incidents such as scandals" are items for deliberation and reporting.

At the Risk Management Committee meeting held on May 23, 2022, deliberations were conducted regarding the preparation of the draft internal control report. The draft internal control report prepared by the Audit Department stated that the internal controls over the financial reporting of the Group for fiscal 2022 were effective. In response, several outside audit committee members, assuming deficiencies existed in the internal controls, requested the Audit Department explain the reasoning behind this judgment. The Audit Department explained that these deficiencies did not constitute so-called "material weaknesses requiring disclosure." Furthermore, the outside audit committee members expressed the view that discussion was necessary regarding the appropriate state of internal controls for fiscal 2022 and beyond.

However, at subsequent Risk Management Committee meetings held on or after that date, the 2022 case was never deliberated upon, nor were measures to prevent recurrence ever discussed.

B Response to the 2024 Case

Furthermore, Mr. Okuda, the President and Representative Director who is in a position to effectively nominate full-time audit committee members, stated that the full-time audit committee members appointed since 2020 (Mr. Hiroya, Mr. Okamura, and Mr. Miura) did not possess expertise in auditing at the time of their appointment.
Unlike the response to the 2022 case described above, the Risk Management Committee deliberated on the response to the 2024 case prior to submitting its report to the Board of Directors, as mentioned earlier. Furthermore, at the Risk Management Committee meeting held on April 23, 2025, the draft detailed implementation plan for recurrence prevention measures regarding the 2024 case was deliberated. Based on the results of this deliberation, the detailed implementation plan for recurrence prevention measures was resolved at the Board of Directors meeting held on April 25, 2025.

3 Monitoring by the Audit and Supervisory Committee

(1) Audit and Supervisory Committee Structure

A Knowledge of Full-Time Audit and Supervisory Committee Members

As stated in Section 2(1) above, the Full-Time Audit and Supervisory Committee Member is, in practice, appointed from among individuals nominated internally by the President and Representative Director. According to the President and Representative Director, candidates for the Full-Time Audit and Supervisory Committee Member have been selected with the aim of avoiding concentration from specific business divisions while ensuring they possess detailed knowledge of the company's operations.

Under the Companies Act, the term of office for Audit and Supervisory Committee members is two years. Both Mr. Hirotani and Mr. Okamura, former full-time Audit and Supervisory Committee members who assumed their positions after 2020, have completed one two-year term and stepped down. This is because the Company sets the so-called mandatory retirement age for directors serving as Audit and Supervisory Committee members at 65 years old. Mr. Hirotani and Mr. Okamura reached the mandatory retirement age of 65 at the end of their single two-year term and were not reappointed.

Both Mr. Hirotani and Mr. Okamura stated that they had long-term experience in sales departments and did not possess expertise in auditing at the time of their appointment as Audit Committee members.

On the other hand, the current full-time Audit and Supervisory Committee member, Ms. Miura (appointed in 2024), has extensive experience in the administration division. Given her responsibility for performance management, it can be inferred that she possesses a certain level of expertise in financial accounting. (Since 2022, the Company has included a table (the so-called skill matrix) detailing "particularly important knowledge, experience, and abilities expected of directors" in the reference materials for the shareholders' meeting. Mr. Okamura, the former full-time Audit and Supervisory Committee member who joined in 2022, has no "○" in the "Financial Accounting" column, whereas Ms. Miura has an "○" in that column.) However, Ms. Miura has no experience in audit practice.

Furthermore, Mr. Okuda, the Representative Director and President who is effectively in a position to nominate full-time Audit and Supervisory Committee members, stated that the full-time Audit and Supervisory Committee members appointed since 2020 (Mr. Hiroya, Mr. Okamura, and Ms. Miura) had no knowledge of auditing at the time of their appointment.

B Status of Deliberations

Regarding the minutes of the Company's Audit and Supervisory Committee, the amount of information recorded under "Summary of Proceedings" [42], which is required by the Companies Act, is extremely limited. Only the agenda items and conclusions are recorded, and the minutes contain almost no record of the statements made by Audit and Supervisory Committee members.

[42] Article 110-3, Paragraph 3, Item 2 of the Enforcement Regulations of the Companies Act

Furthermore, since the time of the meeting's conclusion is also not recorded, the duration of the deliberations is unknown 43. Additionally, the Company has adopted a practice of recording the content of Audit and Supervisory Committee deliberations in a document called the "Audit and Supervisory Committee Memo," but this memo also contains almost no record of the statements made by Audit and Supervisory Committee members. Moreover, the Company does not retain audio recordings of Audit and Supervisory Committee meetings held prior to fiscal year 2024.

Thus, deliberations are scarcely documented. Even during interviews with Audit and Supervisory Committee members, they provided no clear statements regarding the deliberation circumstances at the time. Moreover, many Audit and Supervisory Committee members stated they had no recollection of the deliberation circumstances at the time, leaving the content of the deliberations unclear [44].

C Coordination with the Audit Department

The Audit and Supervisory Committee holds regular meetings with the Audit Department at least once a month to exchange information and opinions on mutual audit results within the Group, the status of corrective actions, and the progress of audit plans. Furthermore, when conducting on-site inspections or audits at headquarters, branches, or work sites, the Audit and Supervisory Committee conducts joint audits with the internal audits performed by the Audit Department as necessary. In practice, Audit Committee members do participate in on-site inspections with the Audit Department under the framework of joint audits. However, the verification of documents and records is conducted exclusively by the Audit Department, and Audit Committee members themselves do not perform verification tasks.

Many Audit Committee members stated that they relied on the results of internal audits conducted by the Audit Department and reports from the external auditor regarding the accounting audit. It is not anticipated that the Audit Committee itself would undertake various tasks, including the verification of accounting audit-related documents.

Furthermore, as mentioned in 1 above, as part of the recurrence prevention measures for the 2022 case, the Audit Department will independently conduct investigations into the existence of orders. However, there is no particular evidence that the Audit and Supervisory Committee discussed the methods or scope of these existence investigations with the Audit Department.

D Status of Communication with the Accounting Auditor

Our audit standards require the Audit and Supervisory Committee to receive reports from the accounting auditor regarding the audit in a timely and ongoing manner, actively exchange opinions and information, receive an overview of the audit plan from the accounting auditor, receive explanations on key audit matters, and exchange opinions.

Accordingly, the Audit and Supervisory Committee receives reports annually from our accounting auditor, KPMG AZSA LLC, regarding the audit plan, audit reports, and review results, with the Audit Department present. Following the report from KPMG AZSA LLC, time is allocated for questions and answers regarding the report content, during which the Audit and Supervisory Committee poses questions to KPMG AZSA LLC. However, minutes are not prepared for these meetings with KPMG AZSA LLC, making it difficult to retrospectively verify the content of the Q&A.

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[43] Many Audit and Supervisory Committee members stated that the deliberation time for the Audit and Supervisory Committee was generally between one and one and a half hours, but no supporting documentation remains.

[44] Many Audit and Supervisory Committee members stated that deliberations at the Audit and Supervisory Committee meetings were active, but no supporting documentation remains.

(2) Status of Initiatives for 2022 Case

A Involvement in Formulating Prevention Measures

While the Management Division was responsible for formulating recurrence prevention measures for the 2022 case, according to two former full-time Audit and Supervisory Committee members (Mr. Hirotani and Mr. Okamura) who joined in 2020 and 2022, respectively, the Audit and Supervisory Committee did not receive requests for cooperation from the Management Division or other departments during the formulation of recurrence prevention measures, nor did it express opinions during the formulation process. Consequently, the Audit and Supervisory Committee did not participate significantly in the formulation of recurrence prevention measures.

B Monitoring of the Implementation Status of Recurrence Prevention Measures

Regarding recurrence prevention measures, only the investigation into the authenticity of orders (sampling investigation by the Audit Department) was monitored by the Audit and Supervisory Committee. The Committee confirmed the implementation status by receiving reports from the Audit Department, among other methods, since the recurrence prevention plan was reported at the Board of Directors meeting on June 24, 2022.

Regarding other recurrence prevention measures, the explanation provided by the Audit and Supervisory Committee members at the time was that they monitored implementation by attending Board of Directors meetings and receiving reports on the status of implementation of these measures. Beyond this, there is no particular evidence that the Audit and Supervisory Committee independently monitored the implementation status of recurrence prevention measures.

Furthermore, as mentioned above, while the Board of Directors has not received any reports on the implementation status since the report to the Board on July 30, 2023, the Audit and Supervisory Committee did not request further reports on the implementation status after that date.

C Setting Key Audit Items and Audit Practices

The Audit and Supervisory Committee's key audit items for fiscal year 2022 included "Status of compliance initiatives in each business division and the administration division."

This item was established in response to the 2022 case, and "compliance initiatives" primarily refers to sampling investigations.

Audit records from on-site inspections conducted after 2022 occasionally mention conducting sampling investigations regarding the existence of orders, but no details regarding the specific content of these investigations were found. On-site inspections were generally conducted jointly with the Audit Department, and the actual work of confirming documents as part of the sampling investigation was performed by Audit Department staff (the content of the sampling investigation is described later in 4(3) B below).

As mentioned earlier, the Audit and Supervisory Committee members stated that they relied on the results of internal audits conducted by the Audit Department and reports from the accounting auditor for the accounting audit. Consequently, the Audit and Supervisory Committee members themselves did not conduct sampling investigations, not only during on-site inspections but at any time.

D Cooperation with the Accounting Auditor

The Audit and Supervisory Committee received a summary report of the audit results under the Financial Instruments and Exchange Act from KPMG AZSA LLC on June 22, 2022. According to the materials provided at the time of this report, in essence, for post-controls such as sampling investigations to

The Audit and Supervisory Committee received a summary report of the audit results under the Financial Instruments and Exchange Act from KPMG AZSA LLC on June 22, 2022. According to the materials provided at the time of this report, an alert was issued stating that, in essence, for reactive controls (post-controls) such as sampling investigations to function adequately as internal controls, the appropriateness of sampling methods, the timeliness of implementation, and the effectiveness of controls must be sufficiently ensured. Furthermore, if reactive controls are not adequately established, the proactive (pre-transaction) internal controls need to be reviewed.

However, there is no evidence that the Audit and Supervisory Committee has exchanged views with KPMG AZSA LLC since that date regarding the implementation status of recurrence prevention measures for the 2022 case or the Company's verification of the existence of orders placed.

Furthermore, the Key Audit Matters (KAM) for fiscal years 2022 and thereafter have been consistent each year: "The reasonableness of the estimates of total construction revenue and total construction costs in revenue recognition for performance obligations satisfied over time. "Based on the Committee's hearings, there was no evidence of discussions between the Audit and Supervisory Committee and KPMG AZSA LLC regarding key audit matters or KAMs related to inappropriate conduct similar to the 2022 case.

(On the other hand, as mentioned above, there is no particular evidence that the Audit and Supervisory Committee discussed the methodology or scope of the substantive procedures with the Audit Department during this period)

(3) Status of Efforts Regarding the 2024

A Status of Initial Response

Immediately after the discovery of the 2024 case, as described in 2(4) above, the Risk Management Committee primarily handled the response to the 2024 case. The Audit and Supervisory Committee's involvement was limited to Audit and Supervisory Committee members attending that committee expressing opinions regarding the formation of the internal investigation committee, etc.At that time, no particular objections or concerns were raised by the Audit and Supervisory Committee members regarding the appointment of Mr. Kuroda, an outside Audit and Supervisory Committee member, to the Internal Investigation Committee (i.e., conducting the investigation in the form of an Internal Investigation Committee, not a so-called third-party committee).

Furthermore, while the Audit and Supervisory Committee reportedly conducted some deliberations at the time regarding the handling of the 2024 matter, the specific content of these deliberations is unclear due to the absence of objective records such as meeting minutes.

B Opinion on the Scope of the Internal Investigation Committee's Inquiry

At the time the Audit and Supervisory Committee received the investigation report prepared by the Internal Investigation Committee, the committee agreed that implementing measures to prevent recurrence should take priority over expanding the scope of the Internal Investigation Committee's inquiry. Consequently, no member of the Audit and Supervisory Committee raised any particular objections regarding the scope of the Internal Investigation Committee's inquiry.

C Status of Activities to Prevent Recurrence

The Audit and Supervisory Committee submitted a written opinion to Mr. Okuda, President and Representative Director, dated April 23, 2025. In this opinion, the Committee declared its intention to work in concert with management to prevent the recurrence of improper accounting practices.

On the same day, as described in 2(4) above, the Risk Management Committee formulated countermeasures to prevent recurrence of the 2024 incident. Audit and Supervisory Committee members attended this meeting and provided certain opinions, thereby participating in the formulation of these countermeasures.

Going forward, the Audit and Supervisory Committee plans to monitor the implementation status of the recurrence prevention measures by attending Board of Directors meetings and receiving reports on their progress.

Regarding verification of the effectiveness of recurrence prevention measures, according to the current full-time Audit and Supervisory Committee member, the penetration status at the operational level is confirmed by conducting interviews with employees on-site during on-site inspections.

4 Internal Audit System

(1) Audit Department Personnel

As mentioned earlier, from April 2018 to the present, the Audit Department has basically consisted of three employees.

During the Committee's hearing, Mr./Ms. C2 of the Audit Department stated that while the current staffing level is not insufficient, given the nature of audit work requiring advanced specialized knowledge, successor development is essential [45]. He/she mentioned that he/she had previously requested additional staffing from the President. Furthermore, the detailed implementation plan for recurrence prevention measures formulated in response to the 2024 case calls for enhancing and strengthening internal audits, including "strengthening the check system through internal audits." The Audit Department has expressed the view that increasing staffing would be necessary to achieve this enhanced and strengthened internal audit function to a greater extent than before.

Beyond the Audit Department's assessment of staffing levels, all full-time Audit Committee members appointed since FY2020 (Mr. Hirotani, Mr. Okamura, and Ms. Miura) share the view that the Audit Department is understaffed. Furthermore, although the specific timing is unclear due to the absence of objective documentation, it appears that Mr. Hirotani, a full-time Audit Committee member, raised the need for additional staffing during Audit Committee deliberations. Furthermore, both former full-time Audit and Supervisory Committee member Mr. Okamura, who took office in fiscal year 2022, and current full-time member Ms. Miura have directly pointed out the need for additional staffing to Mr. Okuda, the President and Representative Director who directly oversees the Audit Department (however, while individual Audit and Supervisory Committee members recognized this need, the Audit and Supervisory Committee itself never formally requested additional staffing for the Audit Department from Mr. Okuda or the Board of Directors).

However, as stated above, the Audit Department's staffing was not increased, and the department's personnel has remained at three members to the present day 46. Regarding this point, Mr. Okuda also expressed the view that the Audit Department's staffing was insufficient. He stated, however, that the tendency toward understaffing in the Audit Department was not due to personnel cost reduction, but rather because the specialized nature of audit work makes it difficult to increase staffing through mid-career hires.

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[45] As of the date of submission of this investigation report, the three employees assigned to the Audit Department's Audit Section are aged ●, ●, and ●, respectively. The Audit Department's view that successor development is essential is presumed to be based on this situation.

[46] In April 2022, the company conducted recruitment with the premise of increasing Audit Department staffing, hiring mid-career employees for the Audit Section in October of the same year. However, as of April 2023, the Audit Department Audit Section still has only three employees.

(2) Situation Prior to the 2022 Case

The Company's Internal Audit Regulations stipulate that the head of the internal audit department (Audit Department Manager) must prepare an audit plan each fiscal year and obtain the approval of the President and Representative Director.

Prior to the 2022 case (through fiscal year 2021), the audit plan's key audit items primarily included items related to human resources and labor affairs and core system migration. The plan did not include items focusing on misconduct similar to that identified in the 2022 and 2024 cases.

(3) Situation after the 2022 Case

A Establishment of Key Audit Matters

The key audit items in the audit plan were: "Confirmation of departmental responses to tax audit findings" for fiscal year 2022, "Confirmation of ongoing efforts by each department regarding tax audit findings" for fiscal year 2023, and "Confirmation of efforts concerning various matters that could lead to compliance violations" for fiscal year 2024.

The term "compliance violations" in the FY2024 key audit items was established with the intent to broadly capture violations of legal compliance, while keeping in mind misconduct similar to the 2022 case. All these key audit items were established based on the 2022 case.

B Actual State of Internal Audits

The recurrence prevention measures for the 2022 case included "strengthening operational audits." The Audit Department was assigned responsibility for: ① document monitoring during operational audits, ② checks during on-site inspections, and ③ reconfirmation of independent monitoring within business divisions (hereinafter collectively referred to as" sampling investigations by the Audit Department"). According to the Excel file documenting the results of the sampling investigations conducted by Mr./Ms. C2 of the Audit Department and the Audit Department, the methodology and number of investigations conducted are as follows:

①Document Monitoring During Operational Audits

Orders suspected of lacking actual existence are extracted as samples. Specifically, the Audit Department identifies projects where doubts arise about the existence of orders by confirming the timing of additional orders (whether near the end of the construction period) or comparing the content of orders received from the prime contractor with the content of orders placed with subcontractors. The audit methods applied to samples extracted in this manner are primarily as follows:

(i) Verify purchase orders from the prime contractor and quotations from cooperating contractors to confirm whether the orders placed by our company with cooperating contractors were genuinely necessary.

(ii) Verify that the cooperating contractor receiving the order is the cooperating contractor responsible for the relevant construction site by checking the subcontract notification submitted by our company to the prime contractor and the construction organization chart posted at the construction site.

(iii) We monitor monthly gross profit margin fluctuations. For projects showing extreme fluctuations, we confirm the reasons for the variation with on-site employees.
The sample size is approximately 60 cases per fiscal year.

②Checks During On-site Inspections

During site inspections, multiple projects are sampled using the same criteria as ①and audited using the same methodology as ①.
The sample size is slightly over 10 projects per fiscal year.

③Reconfirmation of Independent Monitoring within Business Divisions

First, the Management Department establishes specific evaluation criteria for each item: "Contract Amount," "Actual Construction Period," "In-House or Outsourced Equipment," "Additional Outsourced Orders," "Additional Post-Construction Survey Orders," and "Earthwork, etc." Points are assigned based on the degree to which these criteria are met. For example, under the "Contract Amount" item: 5 points if the contract amount is ¥100 million or more, 3 points for ¥50 million or more but less than ¥100 million, 2 points for ¥30 million or more but less than ¥50 million, and 1 point for less than ¥30 million.

The conditions of each project are applied to these item-specific criteria. Projects where the total point value exceeds 20 points are selected as samples. These samples undergo verification by cross-referencing invoice data and other supporting documents (KY daily reports, contract agreements, implementation structure diagrams, construction organization ledgers, meeting records with the client, etc.).

To verify the results obtained from this initial sampling survey by the Management Department, the Audit Department conducts audits using the same methodology as ①and ②.
The sample size is just under 80 cases per fiscal year.

The Audit Department conducted these sampling investigations from fiscal year 2022 through fiscal year 2024. As a result, no orders were discovered that raised clear doubts about their actual existence. It should be noted that the methodology for these Audit Department sampling investigations was reportedly devised independently by the Audit Department.

One factor contributing to the failure to detect improper conduct through the Audit Department's sampling investigation may be that the Audit Department did not sample projects where a large number of orders were approved at the worksite level.

As stated in the Internal Investigation Committee Report, our company's standard procedure is for the construction site manager to prepare a purchase request form (also called an order request). The Purchasing Department then creates a purchase order based on this request, issues it to the vendor, and collects an order confirmation from the vendor. In other words, within our normal business workflow, orders for construction costs are fundamentally subject to checks by the Purchasing Department or similar body.

However, as an exception to this system, the company has defined certain types of orders that can bypass the purchase request order procedure for the purpose of expediting operations and reducing workload. When placing orders of these defined types, the construction site manager is authorized to place the order without undergoing checks by the Purchasing Department or similar (site approval). Among these site-approved orders, the transactions eligible for order procedure omission include "Orders of ¥500,000 or less, excluding subcontract agreements."

According to Mr./Ms. C2, based on the understanding that "orders under ¥500,000 excluding subcontracting agreements" carry low audit significance from a risk weighting perspective, projects with a high volume of such orders were not selected as samples.

However, in the 2024 cases of improper orders, orders approved at the worksite level were frequently used. Nevertheless, as mentioned above, since the sampling criteria for the Audit Department's investigation did not include the presence or number of orders approved at the worksite level, it is presumed that the improper orders could not be captured.

(4) Status After the 2024 Case

The FY2025 audit plan lists the following as key audit items related to the 2024 cases:"Confirming each department's efforts to implement recurrence prevention measures for the accounting fraud case and conducting awareness activities for employees," and "Implementing recurrence prevention measures independently by the Audit Department (including re-implementing measures already carried out by departments)."

5 Internal Control System at the Soil Improvement Division

(1) Status of Budget vs. Actual Management

Soil Improvement construction possesses the characteristic that costs can fluctuate depending on construction conditions, such as Soil Improvement hardness. Consequently, as construction progresses, it frequently occurs that actual costs required exceed or fall below the costs anticipated at the time of the NET Review Committee meeting.

When such cost fluctuations occur and the gross profit margin for an individual project deviates by 5% or more from the gross profit margin projected at the time of the NET Review Committee meeting (or, if the budget determined based on the NET Review Committee undergoes changes, from the gross profit margin at the time the revised budget is determined), a "Re-NET Review Committee" meeting is convened. At this NET Review Meeting, project personnel including the Project Manager attend to confirm the reasons for the gross profit margin fluctuation, the appropriateness of the budget at that point, and the final profit outlook. If necessary, the budget is revised. In other words, the Re-NET Review Meeting is established to address budget fluctuations during the construction period, indicating that the company does not inherently prohibit fluctuations exceeding 5% of the execution budget.

Furthermore, if the actual budget fluctuates by 5% or more during the construction period, the construction site manager is required to prepare and submit a gross profit improvement/deterioration report [47].

[47] The number of Gross Profit Improvement/Deterioration Reports submitted from fiscal year 2022 to fiscal year 2024 is as follows.
FY2022: Improvement Reports 30, Deterioration Reports 17 (out of 367 total projects for that fiscal year)
FY2023: Improvement Reports 28, Deterioration Reports 10 (out of 308 total projects in that fiscal year)
FY 2024: Improvement Reports 38, Deterioration Reports 8 (out of 273 total projects for the fiscal year)

The Gross Profit Improvement/Deterioration Report requires detailing both the breakdown of the previous actual budget and the breakdown of the revised actual budget. While the report template provided is an Excel file, due to the specifications of our cost accounting system, it is not possible to copy and paste figures from the cost accounting system data to transcribe the breakdown of the actual budget at each point in time into this report. Furthermore, the report requires a specific explanation of the reasons for the improvement or deterioration in the gross profit margin.

The gross profit improvement/deterioration report prepared and submitted by the construction site manager is approved in sequence by the branch department/section manager and the General Manager of the Construction Management Section, Construction Department, Soil Improvement Business Unit, and is ultimately approved by the General Manager of the Construction Department, Soil Improvement Business Unit.

However, according to Mr./Ms. C1 from the Management Department, it was often observed that if the report contained deficiencies, the General Manager of the Construction Department, Soil Improvement Business Unit, as the higher-level decision-maker, would order the branch department/section manager to "redo" it. In such cases where a "redo" occurred, it is possible that the branch department/section manager would then instruct the Construction Site Manager to revise the report.

Considering the above, it is reasonable to assume that preparing the Gross Profit Improvement/Deterioration Report requires considerable effort from the Construction Site Manager. However, during this Committee's hearings, management staff from the Soil Improvement Business Unit Administration Department stated that they did not believe preparing this report imposed a significant burden on the Construction Site Manager. This suggests a disconnect between the field's and the administrative department's perceptions regarding the Construction Site Manager's workload.

Furthermore, while the Gross Profit Improvement/Deterioration Report is, as its name implies, required to be submitted when the gross profit margin increases (upward deviation) or decreases (downward deviation) by 5% or more, the investigation into the 2022 case revealed that some construction site managers held the view that an upward deviation in profit figures immediately before the accounting period-end itself signified lax performance management and would be grounds for reprimand [48].

Regarding this point, Ms. Miura, the former head of the Administration Department and current full-time Audit and Supervisory Committee member, stated that around 2022, construction site managers could face reprimands if fluctuations in the gross profit margin occurred. However, she stated that since fiscal year 2022, the Administration Department has thoroughly instructed and communicated at performance meetings attended by Construction Department managers at each branch that construction site managers should not be reprimanded even if fluctuations in the gross profit margin occur. Therefore, she stated that construction site managers are not reprimanded at present.

Nevertheless, as mentioned above, if the gross profit margin fluctuates by 5% or more, a NET review meeting will be convened again. Based on its outcome, the budget will be revised. Therefore, it appears construction site managers are required to provide a reasonable explanation for the fluctuation in the gross profit margin.

[48] Furthermore, the Company's personnel evaluation system establishes standards that employees must achieve for each role grade. The standards that a construction site manager must achieve do not explicitly include a requirement that "the gross profit margin does not fluctuate during the construction period."Furthermore, according to the HR department, even if the gross profit margin fluctuates upward or downward during the construction period, the fact of such fluctuation itself will not negatively impact the personnel evaluation, provided the fluctuation is based on reasonable grounds.According to a questionnaire conducted by this committee, only a very small number of employees cited "to avoid negative personnel evaluations due to large discrepancies between budget and actual results" as a reason for cost transfers between sites. Based on this, it cannot be concluded that fluctuations in the gross profit margin negatively impact the personnel evaluation of the construction site manager.

Furthermore, the Profit Margin Deterioration Report requires specific documentation of the reasons for improvements or deteriorations in the gross profit margin. If the content of this documentation is found to be deficient, the construction site manager may be required to revise the report.

Indeed, in response to the question, "Do you feel the pressure of budget management for construction projects, not limited to Soil Improvement projects, is severe at our company?", a large number of employees answered "Yes, I feel it is severe." This number was nearly double that of employees who answered "No, I do not feel it is severe."

As outlined above, given that construction site managers face significant additional workload when the gross profit margin fluctuates by 5% or more, and that many staff still perceive intense pressure regarding budget management, it is highly probable that guidance and awareness regarding the inappropriate reprimand of site managers by management has not reached the field. It appears that even after the 2022 projects, pressure persists, particularly among field construction site managers, that fluctuations in the execution budget (gross profit margin) are not tolerated. Therefore, a gap exists between the field and the management department regarding the perception of whether such pressure exists.

(2) Dispersion of Regulations and Manuals

The company has established multiple regulations and manuals related to the ordering and payment flow for cooperating contractors in soil improvement projects. These include the Construction Management Regulations (Soil Improvement Section), Purchasing Management Regulations, Cost Accounting Guidelines, and the Operations Manual (Construction Management Section), along with business flow charts, job descriptions, and an Excel file containing the RCM (Risk Control Matrix) – collectively referred to within the company as the "Internal Control Three-Point Set."

However, none of these regulations or manuals explicitly state they were created for field employees. Furthermore, depending on the reader's ability and background, the sheer volume of text suggests it would take a considerable amount of time to thoroughly review them. Thus, there appears to be no manual specifically tailored for field employees detailing internal rules and operational workflows concerning ordering and payment processing for cooperating contractors. It can be said that these regulations and manuals are not consolidated into a single set.

(3) Coordination Between Administrative Departments and Field Operations

When the Administration Division formulates or revises regulations, these regulations are posted on the company intranet. However, the intranet system is designed such that whenever information is updated, the relevant regulatory information moves further down the intranet hierarchy with each update. Consequently, it becomes difficult to locate this regulatory information on the intranet. Furthermore, Mr./Ms. C3 of the Finance Department within the Administration Division stated that there was a lack of awareness among field staff regarding what information was posted on the intranet in the first place.

Furthermore, according to Mr./Ms. C3, when the Administration Division formulates or revises regulations, the Soil Improvement Construction Department Administration Department is generally responsible for communicating the purpose of the revision to all relevant parties. This involves the Administration Division explaining the purpose of the revision at the Department Heads Meeting, where construction department heads from all nationwide branches gather, or (in branches with a General Affairs Section) the Administration Division coordinating with the branch's General Affairs Section, which then explains the purpose of the revision to the construction site manager.

In other words, communication from the Management Division is fundamentally relayed first through the Soil Improvement Division Management Department to the construction department managers or the General Affairs Section at the base. Ultimately, this information is conveyed to the construction site managers by these individuals.

As described above, it cannot be denied that there is a possibility that information regarding revisions to regulations may not reach the construction site managers in the first place, or that the intent of the revisions may not be accurately conveyed to them, due to insufficient dissemination of information regarding the formulation and revision of regulations and the multiple points through which the chain of command passes.

(4) Status of Internal Reporting System and Operation of the Internal Reporting System

A Overview of Our Company's Internal Reporting System

As stated in the Internal Investigation Committee Report, the Company has established a Corporate Ethics Helpline (with three reporting channels: the General Affairs Section of the General Affairs Department within the Management Division, the full-time Audit Committee members, and an external law firm) for employees and officers of the Company, its Group companies, and certain partner companies (including retirees).The reporting channels accept reports and consultations regarding violations or potential violations of laws and regulations, as well as various internal rules established by the Company and its subsidiaries (hereinafter referred to as "Violations of Laws and Regulations") by the Company's officers and employees. When a report or consultation is received, necessary investigations are conducted based on the content.

If the investigation confirms the existence of a violation of laws, regulations, etc., the findings are reported to the Risk Management Committee and the Audit Committee. The General Manager of the General Affairs Department, under the direction of the Risk Management Committee, takes necessary measures, including corrective actions.

B Awareness Status of Our Whistleblowing System

Until fiscal year 2024, the Company posted information about the whistleblowing contact point on its intranet. Furthermore, as described in Section 1(2) D above, as part of measures to prevent recurrence of the 2022 incident, the Company provided explanations about the whistleblowing system's outline during internal training sessions and meetings with partner companies to raise awareness.

However, according to a questionnaire conducted by this Committee, as shown in Appendix 2, approximately 30% of officers and employees responded "No" to the question, "Do you know who (or where) to report or consult with if you discover a compliance violation?" This suggests that awareness of the internal reporting system was not sufficiently widespread within the Company.

C Number of Reports and Usage Status of the Internal Reporting System

The number of reports submitted to the internal reporting system from fiscal year 2018 to fiscal year 2024 is as follows.

Fiscal Year	Number of Uses
2018	0
2019	0
2020	0
2021	0
2022	0
2023	1
2024	1

As shown above, following the implementation of measures to prevent recurrence in the 2022 case, specifically by promoting awareness of the internal whistleblowing system, no significant increase in the number of reports using this system was observed.

The 2023 report concerned a request to caution individuals smoking electronic cigarettes within our branch office, while the 2024 report pertained to fuel handling practices at a civil engineering construction site (investigations confirmed that the fuel handling practices did not violate any laws or regulations).In other words, the internal reports received since fiscal year 2022 were unrelated to the same type of inappropriate conduct as the 2022 and 2024 cases.

Chapter 5 Causes of Improper

Section 1 Cause of Inappropriate Conduct

The causes of the improper practices identified in the Soil Improvement project—including the transfer of expense items within the same project, the transfer of costs between projects, the receipt of money or valuables, and the improper use of entertainment expenses—are as follows.

1 Direct Causes of Cost Item Transfers Within the Same Project

(1) Existence of a Custom of Cost Item Transfers Within the Same Project

Within Soil Improvement projects, the practice of transferring expense items within the same project, carried out by sites requesting cooperation from subcontractors, had been widespread for decades and continued uninterrupted to the present. As evidenced by subcontractors who cooperated in transferring expense items within the same project stating that "every company did it," this practice is inferred to have been a site custom existing to some extent within the industry, rather than solely a site custom specific to our company.

It is impossible to pinpoint the exact circumstances or timeframe in which this practice of cost item reallocation within the same project originated. Therefore, in analyzing the causes of this practice, this committee will focus not on why it began, but rather on why it has continued uninterrupted to the present day and why it was never stopped.

(2) Lack of Education and Training for Construction Site Managers and Workers

In Soil Improvement projects, effective education and training regarding accounting and administrative procedures have not been implemented for project managers and workers. Consequently, site managers and workers have no choice but to learn accounting and administrative procedures by observing how their seniors and colleagues perform these tasks. As a result, the accounting and administrative practices of seniors and colleagues—both appropriate and inappropriate—are propagated both vertically and horizontally. Therefore, on-site personnel either lack any awareness that intra-project cost reallocation, learned by observing seniors and colleagues, constitutes inappropriate behavior, or possess only a very limited understanding of it.

Furthermore, the Committee's investigation revealed significant discrepancies in the understanding of the accounting and administrative processing framework between the Soil Improvement Business Unit and construction site managers and field workers (e.g., regarding the allowability and methods of using entertainment expenses, the allowability and methods of adjusting gross profit margins, and the allowability and methods of using general administrative expenses). There were also considerable discrepancies in understanding among the construction site managers and field workers themselves. The cause lies in the points mentioned above.

The general perception among construction site managers and field workers who performed cost item transfers within the same project was that such transfers, regardless of the method, ultimately constituted part of the project cost. They did not consider it a particularly problematic act, reasoning that it did not directly cause economic loss to the company and, given the small amounts involved, was not a significant issue. Cost item transfer within the same project is problematic because it makes individual cost management difficult and could undermine confidence in the internal controls over the financial accounting of our listed company. However, construction site managers and field workers had not received training or education from this perspective, so they did not hold such an understanding.

(3) Lack of Checks and Corrective Opportunities for Project Managers and Workers

In the field of Soil Improvement projects, where such practices have become entrenched, construction site managers and workers who learn accounting and administrative procedures from seniors and colleagues often become sole managers at a relatively young age. Naturally, when they handle accounting and administrative tasks using these methods, issues are never pointed out by the construction department managers or administrative departments who should provide checks and balances, and the approval process remains purely formal. Previously, at work sites, delivery slips were not actually retained, and physical inspections were rarely conducted, leaving no room for verification by third parties.

Fundamentally, reallocating expense items within the same project falls within the scope of site approval, meaning it avoids third-party scrutiny. The accounting and administrative practices learned from seniors and colleagues include this method of keeping orders within the scope of site approval.

(4) Involvement of Superiors and Related Departments

At Soil Improvement project sites, not only were issues never pointed out to site managers or field workers by the Construction Department Section Manager or administrative departments, but as seen in Mr./Ms. A's case, the Construction Department Section Manager personally performed cost item transfers (many site managers were aware that Mr./Ms. A was ordering items unrelated to the site and having them billed to the site) and even orchestrated cost transfers between similar projects within the same construction project. Other departments, such as the Machine Center, also cooperated in this practice.

Moreover, construction site managers and workers frequently witnessed examples of the Sales Department using entertainment expenses as construction costs for projects under their own responsibility. While this was technically permissible under company rules as long as the funds were used for purposes related to the specific project, the site managers and workers implicitly recognized that the funds were sometimes used for purposes unrelated to the project.

Thus, because they had seen and heard of higher-ups and related departments themselves engaging in reclassifying expense items within the same project, the construction site managers and workers never developed the recognition that reclassifying expense items within the same project was inappropriate. Consequently, there was never any opportunity for them to form the motivation to stop reclassifying expense items within the same project.

(5) The Existence of Contractors Cooperating with Cost Reallocation Within the Same Project

As the internal investigation committee report also pointed out, among the cooperating contractors in the Soil Improvement projects, there were contractors who cooperated with the reallocation of expense items within the same project. Of course, given their position, these cooperating contractors were, to some extent, compelled to comply with requests from our project managers. However, it cannot be denied that they also actively cooperated, demonstrating flexible responses to maintain business relationships.

Construction site managers learned of these contractors' existence from seniors or colleagues, or were taught methods by other site managers or workers from the cooperating contractors themselves, further spreading the practice.

(6) The "hassle" of Performing Proper Administrative and Accounting Procedures Under the Above Circumstances

As a result, within our Soil Improvement projects, site managers and workers either lacked any awareness that transferring expenses within the same project constituted improper conduct, or if they had any awareness, it was extremely limited. For such site managers and workers, transferring expenses within the same project—where a single phone call or email to a subcontractor could procure necessary items—represented an extremely rational and convenient method for managing the busy field operations of Soil Improvement projects. On the other hand, managing invoices and deliveries separately for each cost item and cost category, or having to explain purchases like beverages or beer when questioned with "Why was this purchased?" is nothing but an irrational and roundabout task.

When asked why they didn't follow proper accounting procedures, site managers and workers invariably respond,

"Because the procedures were complicated and troublesome (or because we thought it was troublesome)." While "troublesome" certainly reflects some negligence on the part of site managers and workers, anyone placed in the above situation, without any recognition of the importance of proper accounting or the problems with reallocating expenses within the same project, would likely find proper accounting "troublesome."

It is easy to dismiss the "troublesome" excuse of construction site managers and workers as mere negligence or a lack of compliance awareness. However, unless the above situation is improved, the "troublesome" circumstances will remain unchanged. Consequently, improper accounting practices will not be eradicated. Even if improvements are made, the site managers and workers will only harbor "resentment," feeling they have been burdened with troublesome and meaningless tasks.

2 Direct Causes of Cost Transfers Between Projects

Regarding cost transfers between projects, the same points (1) to (6) identified above as the direct causes for cost item transfers within a single project fundamentally apply. Below, we additionally address direct causes specific to cost transfers between projects.
1(1) to (6) above, which were pointed out as the direct causes of cost reallocation within the same project, fundamentally apply here as well. Below, we will additionally mention the direct causes specific to cost reallocation between projects.

(1) The Objectification of Individual Cost Management Itself and Budget Management Pressure

In our Soil Improvement business, while effective education and training on accounting and administrative procedures are lacking, what is rigorously drilled into site managers is the thorough implementation of individual cost management. Individual cost management is indeed a necessary and important accounting calculation method for quantitatively grasping the precise progress of project costs against the project execution budget on a per-project basis. On the other hand, project-specific costs and gross profit can be influenced by random factors such as weather. Furthermore, fluctuations often occur due to circumstances beyond the project manager's control, such as the sales department setting an unreasonably low contract price.

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Nevertheless, our company thoroughly implements individual cost management. When the gross profit margin for a specific project deteriorates or improves by 5% or more, the project manager must analyze the cause and prepare and submit a "Gross Profit Improvement/Deterioration Report."

Nevertheless, our company thoroughly implements individual cost management. When the gross profit margin for a specific project deteriorates or improves by 5% or more, the construction site manager must analyze the cause and prepare and submit a "Gross Profit Improvement/Deterioration Report." This management is strictly enforced, with superiors sometimes ordering reports to be "redone," creating significant budget management pressure to normalize fluctuations in gross profit per project. This management is strictly enforced, with superiors sometimes ordering reports to be "redone," creating significant budget management pressure to level out fluctuations in gross profit per project.

Consequently, not only project managers but also construction department managers overseeing all projects at branch offices became involved. To keep the gross profit margin for each project within a predetermined range and thereby level gross profit across projects, cost shifting between projects became rampant. This involved allocating expenses from projects generating low profit to those generating high profit.(It should be noted that many veteran construction site managers viewed fluctuations in gross profit margin as a natural occurrence for each project. They did not fixate on deviations and often disregarded such issues even when pointed out by superiors. Cost transfers between projects were less likely to occur at sites managed by these construction site managers).

Thus, while individual cost management should fundamentally be implemented to accurately measure the progress of project costs against the execution budget, within our company's Soil Improvement business, the very act of keeping the gross profit margin within a predetermined range for each project became an end in itself. The persistent pressure to manage budgets accordingly has induced cost transfers between projects to achieve this, ultimately undermining the very purpose of individual cost management. This is putting the cart before the horse.

(2) The Existence of Expenses with Ambiguous Links to Specific Projects and Unclear Processing Methods

Related to thorough individual cost management, there is an issue regarding the unclear handling of expenses whose link to a specific individual project is ambiguous. Examples include fuel for liaison vehicles incurred between the completion of one project and the start of the next, or supplies used at the site office or across multiple sites.

At our Soil Improvement project sites, thorough individual cost management has led to the belief that these expenses should also be recorded as costs for specific individual projects. Consequently, site managers and workers have no choice but to link and record these expenses to some project, ultimately becoming a factor in cost transfers between projects.(Note: While some opinions suggest these expenses could be covered by general administrative expenses, it cannot be said that such expense settlement methods are widely known at the site level).

(3) Machine Center Repair Costs

From the perspective of thorough individual cost management, repair costs for machinery leased from the machine center must naturally be recognized as costs.

However, even if a malfunction requiring repair occurs at a specific construction site, it is often difficult to attribute the cause solely to that site. This is frequently the case when the malfunction stems from factors like aging equipment or usage patterns at other construction sites. The machine center decides whether to charge the repair costs to the project when repairs occur. However, the criteria for such charges are unclear. This creates a situation where whether charges are made and their amount vary based on the whims of the machine center or its staff, or the strength of negotiation between the project manager and the machine center. Furthermore, it becomes a factor in cost shifting, where projects pay if they can get other sites to cover the costs.

The very act of the Machine Center charging repair costs, which should be done to enforce thorough individual cost management, has itself become a factor inducing cost shifting.

3 Direct Causes of Private Misappropriation

For some employees, the issue extends beyond mere cost reallocation to include personal misappropriation. While personal misappropriation was confirmed for only some employees and we could not establish widespread prevalence, the following factors indicate that personal misappropriation within our company is an inevitable problem waiting to occur.

(1) The Field Customization of "Business Purpose" Cost Reallocation

As described above, in our Soil Improvement business, expense category transfers for "business purposes" have become established as a field practice. Examples include having field workers claim beverage or beer expenses as fuel costs, or having gifts related to construction projects claimed under other expense categories.

(2) Expense Category Reassignments for "Purposes Questionable as Business-Related"

Because the practice of reclassifying expenses as "business-related" has become established as a field custom, numerous instances of reclassifying expenses for purposes that are questionable as "business-related" have been added on top of this existing custom. Examples include golf equipment and home appliances allegedly intended as prizes for golf competitions held as company social events, tablet devices allegedly intended for use at the site, and home appliances allegedly intended for use in the site office.

It is highly questionable whether all these expenditures were genuinely for business purposes or could be evaluated as such. Substantively, suspicions remain that they were, or should be evaluated as, private misappropriation. Furthermore, numerous gift certificates were purchased for presentation to related contractors. However, due to their nature, it is impossible to verify who ultimately received these gift certificates. If it is claimed that they were "given to the prime contractor," it becomes difficult to obtain evidence to refute this.

On-site, the practice of reclassifying expenses under "business purposes" has become customary, lowering the psychological barrier to reclassifying expenses for purposes that are "questionable as business purposes." Furthermore, as mentioned earlier, since no checks and balances function within our company, the common understanding among site managers has become that "whatever you buy, it won't be discovered."

This environment has become fertile ground for private diversion.

(3) "Private Misappropriation" Fueled by the Combination of "Motivation"

With numerous instances of reclassifying expenses for purposes that are questionable as business-related, combined with the shared understanding at the workplace that "no matter what you buy, it won't be discovered," the addition of "motivation" makes private misappropriation easy to occur.

The motivation for misappropriation is fundamentally a matter within the personal sphere of the individual involved. However, the internal investigation committee report determined that, in Mr./Ms. A's case, the motivation was to cover the costs of frequent internal social gatherings, making it difficult to say this motivation was purely a personal matter. Furthermore, while the company frequently holds social gatherings, the method for handling expenses is not clearly defined. Consequently, if meal costs become a personal expense, this can constitute a motive for personal misappropriation.

Furthermore, since Soil Improvement project sites are scattered nationwide, construction site managers must travel frequently across the country, staying in weekly or monthly rental apartments during business trips. This creates a dual living situation between their home and the business trip location, necessitating the repeated procurement of household supplies and incurring significant costs. These costs are fundamentally borne by the construction site managers (or at least perceived as such by the managers and workers). However, the issue of these costs could potentially motivate actions like purchasing personal furnishings through expense category transfers.

4 Inappropriate Use of Entertainment Expenses

This committee has discovered and confirmed facts of inappropriate use of entertainment expenses within our company. While the inappropriate use of entertainment expenses is problematic in itself, it is also closely linked to the cost category transfers and cost reallocations that were the initial subjects of investigation. It has continued since the 2022 cases, involving senior personnel in the Soil Improvement Division, and thus clearly demonstrates the background and organizational culture within our company that has prevented the eradication of accounting fraud.

This Committee believes that eliminating the improper use of entertainment expenses is essential to eradicating the expense category transfers and cost transfers that were the initial focus of the investigation. Therefore, the Committee analyzed the causes behind the occurrence of these improper entertainment expense practices as follows.

(1) Normalization and Acceptance of Internal Social Gatherings Not Based on Company Regulations

Within the Company's Soil Improvement business, internal social gatherings (dinners, golf outings) are held frequently. This practice stems from the fact that the business's bases and construction sites are spread across the country, making it difficult for employees to meet regularly. The gatherings are intended to provide opportunities for face-to-face communication and, in themselves, are not inherently problematic. Furthermore, while the company bearing the expense for such gatherings is a matter of company policy, since it involves the outflow of company assets, from an internal control perspective, regulations and rules justifying the expenditure should be necessary.

However, our company lacks regulations explicitly permitting the use of entertainment expenses for internal gatherings (or at least, such regulations are not clearly defined). In practice, entertainment expenses are being used for internal gatherings without adhering to company regulations, and the company is effectively condoning this practice. , the company has effectively condoned the use of entertainment expenses for internal gatherings.

Furthermore, the lack of clear company regulations regarding internal gatherings has created situations where entertainment expenses are improperly used under the guise of external client entertainment, or, as in Mr./Ms. A's case, funds are diverted from personally misappropriated money.

(2) Absence of Usage Standards for Entertainment Expenses

Our company lacks usage standards for entertainment expenses. Furthermore, since there are no regulations governing internal gatherings, it follows that there are also no standards for internal gatherings funded by entertainment expenses. Consequently, whether to approve expenditures or internal gatherings using these funds is decided solely at the discretion of the applicant or approver. This has resulted in disparities between departments and employees who frequently conduct external entertainment or internal gatherings using company funds and those who do not, creating a sense of unfairness. Furthermore, while the appropriateness of entertainment expense usage should be controlled through approval by superiors and internal audits, the absence of standards makes approval decisions by superiors and post-event verification through audits difficult.

(3) The Problem with Entertainment Expense Requests

At our company, requests for entertainment expense payments are submitted by registering them in the entertainment expense request system. However, as mentioned earlier, while it appears inappropriate use of entertainment expenses was widespread within our company, it was virtually impossible to verify this retrospectively based on the content of the entertainment expense requests.

The input fields in the current entertainment expense request form itself can be considered standard. However, given the actual state and circumstances of inappropriate entertainment expense usage within our company, it is difficult to say that the current entertainment expense request application system functions as an effective control against this.

(4) Low Awareness and Organizational Culture Regarding Entertainment Expense Usage

While the importance of internal networking is recognized, awareness regarding the appropriate use of entertainment expenses for this purpose is significantly low. In this case, inappropriate use was also confirmed by executives, including an executive officer of the Soil Improvement Business Unit, highlighting a pronounced lack of awareness that such misuse is unacceptable.

Furthermore, while entertainment expense payments require approval from superiors, the approval process has become a mere formality, as superiors themselves have sometimes been involved in inappropriate usage.

While some employees emphasized the importance of internal social gatherings, this importance does not justify improper entertainment expense usage. If the company and its business genuinely deem hospitality and social gatherings necessary, it should spare no effort in establishing clear regulations and standards.

Furthermore, regarding the fundamental approach to entertainment expense usage, the practice within our company where subordinates "entertain" superiors during internal gatherings (such as the aforementioned "enclosure meetings" or instances where regional offices bear the expense to entertain visiting executives or senior management) inevitably evokes a simple sense of unease as an outsider. Considering the fundamental purpose of internal social gatherings, they should not be occasions where superiors are "entertained" by subordinates, but rather events where superiors express appreciation and encouragement to subordinates. The method of cost allocation should also align with this purpose.

(5) Utilizing Entertainment Expenses as Construction Costs

A Use of Entertainment Expenses as Construction Costs by Sales Department Sections

As mentioned earlier, our company strictly implements individual cost management, with the project site manager bearing responsibility for this management. Therefore, if the gross profit margin fluctuates significantly, the project site manager is responsible for explaining the reasons through a "Gross Profit Deterioration/Improvement Report."

On the other hand, as also confirmed by the Internal Investigation Committee Report, our company has a system in place where the sales department of a branch office can also use entertainment expenses as part of the construction cost. It is certainly not unreasonable for the sales department to use entertainment expenses allocated to a specific project when conducting hospitality related to that project. However, the framework allowing the sales department, which bears no responsibility for individual cost management, to utilize entertainment expenses managed as costs by the construction site manager inherently blurs the responsibility for the use of entertainment expenses as costs. Furthermore, since the construction site manager cannot verify how the sales department utilized these entertainment expenses as costs, they are unable to fulfill their responsibility as the cost management supervisor regarding the sales department's use of entertainment expenses.(Ultimately, it cannot be denied that the sales department has taken advantage of this situation to improperly use entertainment expenses as construction costs).In short, this framework—where the sales department, which bears no responsibility for individual cost management, can effectively use entertainment expenses as costs freely beyond the construction site manager's oversight—appears to contradict our company policy of thorough individual cost management. In response, the branch sales department manager stated that when using entertainment expenses as construction costs, they selected sites where the gross profit margin was not an issue and obtained the construction site manager's approval .However, numerous site managers reported instances of unauthorized use. Even if approval was required, it was difficult for site managers to refuse such requests, suggesting that obtaining approval was largely a formality. In any case, the framework itself remains problematic.

B The existence of practices to enable the use of entertainment expenses as construction costs

At the branch level, the following practices were routinely implemented: explicit or implicit instructions or requests to construction site managers to curb the use of site entertainment expenses; targeting sites managed by junior managers when selecting sites to utilize site entertainment expenses; false reporting concerning construction site managers or business partners who were not present; and requests to the Administration Department to create lists to track the balance of site entertainment expenses.

These practices facilitated the inappropriate use of entertainment expenses as construction costs and, as mentioned earlier, also reduced the motivation for construction site managers to perform proper accounting procedures.

Section 2 Issues in Handling the 2022 Case

1 Issues Preceding the 2022 Case

(1) Status of Formulation and Dissemination of Regulations for Field Employees

Our company lacks regulations detailing the handling of entertainment expenses, which should be explicitly defined. Meanwhile, while regulations exist for processes like ordering and payment operations, many are lengthy and not consolidated into a single manual for field employees, making them difficult to grasp. Furthermore, although regulations are posted on the company intranet, employees are not sufficiently informed about where specific regulations are located.

Consequently, site managers responsible for construction management during the day find it difficult to grasp internal rules themselves, forcing them to learn their duties through guidance from seniors and colleagues.

(2) The Gap in Understanding between the Administrative Department and the Field

The creation of project improvement/deterioration reports, their detailed explanations, and the "redoing" of these tasks impose a significant workload on the construction site manager. This has become a factor inducing cost transfers between projects, yet the Administration Division has failed to grasp this situation. Worse still, during this Committee's hearing, the Administration Division stated, "'We didn't want to create rules at such a low level as 'you shouldn't steal other people's things.'" This mindset, believing there is no need to provide step-by-step guidance even on common-sense matters, has resulted in a failure to conduct the necessary and effective training required for the proper implementation of legitimate work procedures.

These factors stem from the Administration Division (Administration Division Headquarters and Soil Improvement Business Unit Administration Department) failing to gather feedback from the field and grasp actual conditions on-site. The reverse is also true: field employees do not accurately understand the Administration Division's true intentions.

As stated in Chapter 4, Section 2.5(1), the Administration Division had instructed and communicated to site managers that they should not be reprimanded even if gross profit margin fluctuations occurred during the construction period for projects after the 2022 case. Despite this, the pressure from budget management persists to this day, with site managers, in particular, still facing the perception that gross profit margin fluctuations are unacceptable.

This gap in understanding between the Administration Division and field employees is believed to stem from insufficient communication between the two parties.

2 Issues with the Recurrence Prevention Measures for the 2022 Case

The internal investigation did not identify any particular problems with the recurrence prevention measures formulated and implemented during the 2022 case. Rather, it evaluated that these measures contributed to improving our company's culture and work environment. However, we believe the recurrence prevention measures related to the 2022 case had the following problems:

(1) Failure to Improve Business Workflows

The 2022 case involved fictitious orders and cost transfers between projects. These improper actions exploited vulnerabilities in the workflow from order placement to payment. Therefore, when formulating recurrence prevention measures for the 2022 case, the company should have focused on eliminating these vulnerabilities in its consideration and implementation of countermeasures.

However, when formulating these measures, the management department prioritized maintaining operational efficiency. Consequently, they centered the measures on "moral appeals"—such as education and training to enhance employee compliance awareness—and refrained from implementing improvements to the business flow that would address the aforementioned vulnerabilities. Instead, they merely introduced ex-post controls (sampling checks by the audit department).

Consequently, it was only after the 2024 case was uncovered that the company finally introduced the basic operational flow of retaining delivery notes received from subcontractors. It implemented rules for retaining delivery notes and strengthened controls by verifying the content of invoices against delivery notes. While it is difficult to assert that preserving delivery notes would have prevented all improper conduct during the 2022 case, it could have exerted a certain deterrent effect against such conduct. Consequently, it is clear that an opportunity to prevent subsequent improper conduct was lost [49].

(2) The Issue of Training Effectiveness

A Lack of Understanding Regarding Routine Operations

Although "implementing compliance training" was listed as a recurrence prevention measure for the 2022 case, our company's workers fundamentally lacked a proper grasp of appropriate accounting procedures and business practices.

Therefore, even if workers were made to attend so-called typical compliance training and were lectured on the "importance of compliance," they could not connect it to proper accounting procedures and business practices.

B Inadequate content of compliance training

The training materials provided by our company devoted a significant number of pages to general topics related to fraudulent accounting and explanations of accounting fraud cases at other companies. However, for the workers, these topics had little relevance to their daily operations and were not content they could apply to their accounting procedures or work.

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[49] The Committee's investigation identified 36 instances of improper conduct occurring prior to the 2022 cases (before July 25, 2022, the date the recurrence prevention plan was formulated) and 10 instances occurring after the 2022 cases (on or after July 25, 2022).
), and 10 cases occurred after the 2022 incident (after July 25, 2022). Thus, even with the implementation of recurrence prevention measures following the 2022 incident, inappropriate conduct was not completely prevented.

Furthermore, although the training included an explanation of the recurrence prevention measures for the 2022 case, this explanation merely quoted the outline of the measures almost verbatim. Consequently, even if workers received this explanation, it was unclear what specific actions they should take.

Therefore, the training provided as a recurrence prevention measure for the 2022 case had limited effectiveness as a preventive measure to avoid compliance violations by workers [50].

The reason the training content implemented by the company did not align with the daily work performed by workers was due to insufficient awareness within the management department regarding the need to ensure the training's effectiveness permeated the workforce.

(3) Strengthening Internal Control Procedures

The recurrence prevention measures for the 2022 case included "documenting fraud detection methods for ordering procedures" and "documenting rules for issuing replacement vouchers" as part of strengthening internal control procedures. However, the Management Division, the department responsible for implementation, failed to execute these measures.

Mr. Kawachi, who was Deputy General Manager of the Administration Unit when the recurrence prevention measures were formulated in July 2022, and Mr./Ms. C3, who has been assigned to the Finance Department from that time until now, understood that the Purchasing Department of the Soil Improvement Business Unit would "formalize the fraud check methods for ordering procedures." However, the Administration Unit never requested the Purchasing Department to "formalize the fraud check methods for ordering procedures." Consequently, the Purchasing Department did not create such rules as part of the recurrence prevention measures for the 2022 case. Since the department responsible for "formalizing the fraud check methods for ordering procedures" was the Finance Department within the Administration Unit, the Finance Department bore primary responsibility for its implementation. The Finance Department failed to fulfill this responsibility.

Next, it appears Mr. Kawachi considered "documenting rules for creating replacement vouchers" necessary and formulated countermeasures. However, his/her subordinate, Mr./Ms. C3, believed documentation for dissemination was unnecessary, so it was not implemented.

Thus, even within the Administration Unit, which formulated and oversaw these recurrence prevention measures, there was no established consensus regarding the measures themselves. Senior management within the Administration Unit allowed this situation to persist. Consequently, coordination with other departments, such as the Purchasing Department of the Soil Improvement Business Unit, also proved inadequate.

(4) Internal Audit Issues

The recurrence prevention measures for the 2022 case included "strengthening operational audits," leading to sampling investigations by the Audit Department starting in fiscal year 2022. However, these audits failed to uncover the various improper acts until December 2024.

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[50] Regarding employee perceptions of the dissemination and implementation status of the recurrence prevention measures for the 2022 case, the evaluation is as described in Chapter 4, Section 1, Section 2(4) D

One contributing factor, as noted in Chapter 4, Section 2, 4(3) B, was that the sampling criteria did not include the presence or number of orders approved by the worksite. Furthermore, the audit methodology used in the sampling investigation was insufficient for detecting fictitious orders or cost transfers between projects.

Specifically, auditing fictitious orders and cost transfers between projects should be conducted from the perspective of verifying the actual existence of orders. Therefore, unless delivery notes are forged, it is necessary to cross-check invoices against delivery notes. However, until after the 2024 projects, the Company fundamentally did not retain delivery notes. The Audit Department also stated that "the concept of cross-checking invoices against delivery notes simply did not exist." Consequently, the Audit Department could only employ roundabout methods, such as verifying various documents.

While the inadequate retention of delivery notes itself represents an internal control issue, it must be stated that the Audit Department's sampling investigations were qualitatively insufficient as an audit method for detecting fictitious orders or cost transfers between projects.

Section 3 Issues Within the Company's Organizations

1 Issues with the Audit Department

The Audit Department operates with a staff of three, which feels significantly understaffed given the scale of the Company's operations. Objectively, it must be concluded that the Audit Department was understaffed, as evidenced by the fact that all full-time Audit Committee members appointed since 2020 recognized the need for additional personnel, and the Audit Department itself stated that achieving the audit posture required after the 2024 case would entail a significant burden.

Despite this situation, multiple standing audit committee members have requested increased staffing for the Audit Department from the President and Representative Director. Furthermore, the internal investigation committee's report on the 2024 case also pointed out the necessity of reviewing the audit structure. Nevertheless, no staffing increase has been implemented to date. While it might have been understandable before the accounting risks prior to the 2022 case materialized, the current situation is one where accounting risks have materialized and the importance of addressing them has increased significantly, yet the internal audit structure remains inadequate.

Furthermore, as previously mentioned, the internal audits conducted by the Audit Department after the 2022 case were qualitatively inadequate in terms of audit methodology.

2 Issues with the Audit and Supervisory Committee

(1) Problems with the Audit and Supervisory Committee's Response to the 2022 Case

A Lack of Involvement in Formulating Recurrence Prevention Measures for the 2022 Case

The Board of Directors meeting held on April 25, 2022, was the first occasion on which a report concerning the 2022 matter was presented. Following the investigation into the 2022 case and the subsequent reporting of its results, an action plan for recurrence prevention measures was reported at the Board of Directors meeting held on July 25, 2022. However, the Audit and Supervisory Committee did not participate in the formulation of these recurrence prevention measures.

In other words, the 2022 case can be described as an event where various risks our company faced became apparent. As the Audit and Supervisory Committee, we could have considered actions such as verifying the content of the recurrence prevention plan formulated by the Management Headquarters, which is the executive side, or presenting a revised proposal. However, we did not take such actions.

B Status of Verification Regarding Implementation of Recurrence Prevention Measures

The 2022 case recurrence prevention implementation plan included measures such as "documenting rules for issuing replacement vouchers" and "formalizing fraud detection methods for ordering procedures." The question arises whether the Audit and Compliance Committee adequately monitored the implementation status of these measures, given that they were ultimately not implemented.

Regarding the implementation status of recurrence prevention measures, after the recurrence prevention implementation plan was reported at the Board of Directors meeting held on July 25, 2022, reports were made twice more, with the last report occurring on July 31, 2023.Furthermore, there is no evidence that the Risk Management Committee (which requires mandatory attendance by full-time Audit and Supervisory Committee members) explicitly confirmed the status of the implementation plan after that date.

Regarding this monitoring situation by the Audit and Supervisory Committee, Mr. Okamura, a former full-time audit and supervisory committee member who joined in June 2022, stated that he believed monitoring of the implementation status of recurrence prevention measures was sufficiently fulfilled by attending board meetings and receiving reports.

However, had the Audit and Supervisory Committee members specifically confirmed the implementation status of individual recurrence prevention measures during the reporting sessions, it would have been readily apparent that some measures remained unimplemented. The failure to do so must be evaluated as a deficiency in the monitoring function of the Audit and Supervisory Committee.

C Inadequate Verification of the Effectiveness of Preventive Measures

Recurrence prevention measures can only be considered to have achieved their purpose once their effectiveness has been verified. However, there is no evidence that Audit and Supervisory Committee members expressed opinions at Board meetings regarding the effectiveness of these measures or their level of penetration among employees. For example, the Audit and Supervisory Committee could have confirmed what training was conducted as part of the recurrence prevention measures and how the understanding level of the trainees was verified. However, no Audit and Supervisory Committee member stated that such confirmation was performed.

Therefore, the Audit and Supervisory Committee's failure to thoroughly verify the effectiveness of recurrence prevention measures cannot be considered an adequate response.

(2) Audit Committee Audit Methods

The Audit and Supervisory Committee relied on the results of internal audits conducted by the Audit Department for the verification of documents (sampling surveys as part of recurrence prevention measures for the 2022 case), which is part of the audit process.

Various methods for organizational audits using internal control systems by the Audit and Supervisory Committee are conceivable, and it is not prohibited for the Audit and Supervisory Committee to delegate part of the work necessary for auditing to the internal audit department.However, companies with Audit and Supervisory Committees are structured on the premise that each company selects effective audit methods considering risks arising from its size, structure, and business activities. Therefore, companies with insufficient internal audit personnel need to explore other effective audit methods.

It appears that our company, as the Audit and Supervisory Committee, should have considered measures to supplement the audits conducted by the Audit Department (including the use of external resources such as outsourcing) However, there is no evidence that such consideration was undertaken.

A s outlined above, considering the Audit Department's structure and the occurrence of accounting risks in the 2022 year case, the Audit and Supervisory Committee's approach of entrusting sampling investigations solely to the Audit Department and relying on them was inappropriate.

(3) Inadequate Response to Changing Awareness of Accounting Risks

Recently, due to factors such as heightened investor scrutiny, an increase in foreign shareholders and the internationalization of accounting, and successive accounting scandals, Prime-listed companies are required to maintain a higher level of response to accounting risks.

Particularly after the 2022 case where accounting risks materialized, the Audit and Supervisory Committee should have heightened its sensitivity to accounting risks and taken proactive measures.

However, in practice, while individual Audit Committee members recognized the understaffing in the Audit Department and individually requested the President, who oversees the department, to address the shortage, the Audit Committee as a body failed to formally request additional staffing from the President or the Board of Directors. Instead, it delegated sampling investigations entirely to the Audit Department.

Furthermore, there is no evidence that the Audit and Supervisory Committee discussed the necessity of appointing a full-time audit and supervisory committee member with accounting expertise to establish a system capable of effectively auditing the efficacy of recurrence prevention measures after the 2022 case, where accounting risks materialized. Furthermore, there is no evidence that the Audit and Supervisory Committee actively exchanged opinions with its accounting auditor, KPMG AZSA LLC, regarding key audit matters or key audit considerations (KAM) during their discussions.

3 Issues with the Board of Directors

The content, implementation status, and effectiveness of the recurrence prevention measures for the 2022 case should have been a matter of significant concern for the Board of Directors.

Therefore, it can be said that the Board of Directors had a responsibility for each of the following: monitoring the planning status, reviewing the adequacy of the content of the formulated recurrence prevention measures, monitoring the implementation status after the content was finalized, and verifying its effectiveness.

While the basic method would involve soliciting reports from each responsible department, the status of various reports to the Board of Directors at the time of the 2022 case was as described in Chapter 4, Section 2,2 (3) above.

The issues noted in Section 2(1) regarding the Audit and Supervisory Committee's lack of involvement in formulating recurrence prevention measures and insufficient verification of the implementation status and effectiveness of such measures also applied to the Board of Directors. It is difficult to say that the Board of Directors' response was adequate.

4 Issues with Nomination and Governance

(1) The Original Function of the Nomination and Compensation Advisory Committee

The Company has established a Nomination and Compensation Advisory Committee. When the Board of Directors resolves on proposals for the appointment of director candidates, it consults with the Nomination and Compensation Advisory Committee, which consists of outside directors, and receives its recommendations [51].This mechanism is generally understood to ensure objectivity by involving outside directors in the director nomination process and to prevent director candidates from being selected based solely on the preferences of certain directors.

(2) Issues Related to the Nomination of Director Candidates

According to the Nomination and Compensation Advisory Committee Regulations, when selecting candidates for directors of the Company, the Nomination and Compensation Advisory Committee deliberates on proposals prepared by the proposer [52]and submits its recommendations to the Board of Directors. Furthermore, the President is designated as the proposer for proposals concerning the nomination of director candidates. Under this system, if the President proposes candidates for the exact number of positions to be filled (hereinafter, this proposal method is referred to as "President's Nomination"), the Nomination and Compensation Advisory Committee, unless it conducts thorough deliberation, effectively becomes an organ that merely ratifies the President's nominations. It cannot be evaluated as fulfilling its intended function.

(3) Actual Deliberations within the Nomination and Compensation Advisory Committee

According to the hearing with Mr. Okuda, the President and Representative Director of the Company, while informal consultations regarding multiple candidates sometimes occur with the Nomination and Compensation Advisory Committee prior to narrowing down candidates, the Company has never formally proposed multiple candidates for the same position in a formal proposal and requested selection (i.e., it has consistently used the President's nomination method).Furthermore, according to the minutes of the Nomination and Compensation Advisory Committee, no proposal concerning the President nomination has ever been rejected. This practice results in the President and Representative Director, who is the subject of audit, selecting the Audit Committee members who are the auditors. This raises doubts about the effectiveness of the audit.

Furthermore, it is questionable whether the Nomination and Compensation Advisory Committee has sufficiently discussed the expertise of candidates and ensured the timely and appropriate appointment of suitable individuals. For example, since the 2022 case, it should be noted that sufficient discussion should have been held regarding the necessity of appointing a full-time Audit and Supervisory Committee member with accounting expertise, in order to establish a system capable of accurately auditing the effectiveness of recurrence prevention measures. However, there is no evidence that such discussion took place.

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[51] When submitting a proposal for the appointment of directors serving as Audit Committee members to the shareholders' meeting, the consent of the Audit Committee is required under the Companies Act.

[52] Pursuant to Article 2 of the Nomination and Compensation Advisory Committee Regulations, proposals are drafted by this committee and the President and Representative Director, or by persons nominated by the President and Representative Director, upon delegation from the Board of Directors.

Given these circumstances, it must be concluded that the Nomination and Compensation Advisory Committee's nomination of director candidates was essentially a rubber-stamp approval of the President's nominations and failed to fulfill its intended function.

5 Inadequate Documentation of Deliberations

The minutes of both the Company's Board of Directors meetings and Audit and Supervisory Committee meetings fundamentally only record the agenda items and conclusions for each proposal, without documenting the content of statements made by attending directors. This method of preparing minutes undermines the intent of laws requiring the recording of the gist of proceedings and the signatures or seals of attendees.

Furthermore, the Company has adopted a practice of recording the remarks made by attending directors separately in "Board of Directors Memos" and "Audit and Supervisory Committee Memos," distinct from the Board of Directors minutes and Audit and Supervisory Committee minutes. While the remarks made by attending directors are recorded to some extent in the "Board of Directors Memos," they are scarcely recorded in the "Audit and Supervisory Committee Memos." Consequently, while the deliberation process at the Board of Directors can be confirmed to some extent retrospectively [53], it is impossible to retrospectively confirm the deliberation process at the Audit and Supervisory Committee. (The status of audio recording preservation is as described in Chapter 4, Section 2, 2(2) B.)

The above situation regarding the recording of deliberations indicates that the practice of confirming the content of discussions in past meetings (particularly the Audit and Supervisory Committee) and, if necessary, verifying past deliberations is largely not established at the Company. Under these circumstances, it is questionable whether the function of retrospectively verifying the status of business execution and auditing based on such discussions can function adequately.

Furthermore, no records are created or retained for discussions between the Audit and Supervisory Committee and the accounting auditor, making it impossible to verify past exchanges of views retrospectively. Consequently, it was not possible to verify with objective documentation what exchanges of views occurred between the Audit and Supervisory Committee and the accounting auditor regarding key audit matters (KAM) and major audit considerations.

The above situation regarding documentation raises concerns that the Company has inadequately implemented the "Check" and "Action" phases of the PDCA (Plan-Do-Check-Action) cycle, which is fundamental to internal controls and encompasses verification, review, and subsequent improvement.

Section 4 Organizational Culture Issues

As a company listed on the Tokyo Stock Exchange Prime Market, the Company is required to establish a high level of corporate governance and internal controls to ensure the reliability of financial reporting.

[53] However, while the Board of Directors' memos include statements made by officers, the content of reports by executives and employees is summarized concisely, making it impossible to ascertain the details of the reports from the memos.

Accordingly, the Company states that it will "systematically and efficiently promote the establishment, operation, evaluation, and continuous improvement of the internal control system to ensure thorough compliance with laws and regulations, the effectiveness and efficiency of operations, and the reliability of financial reporting." It further states that "rules and regulations are established for the development and operation of the internal control system for finance, which are appropriately applied, and its effectiveness concerning financial reporting is continuously evaluated, maintained, and improved" [54]. Naturally, shareholders and other stakeholders trust that the Company has established such a framework and continuously strives to maintain and improve it.

However, investigations into the 2022 case and the internal investigation into the 2024 case revealed fictitious orders, cost item transfers within the same project, and cost transfers between projects. In response, management has consistently issued messages stating that it will not tolerate misconduct.

As previously stated, however, the subsequent recurrence prevention measures implemented focused primarily on "moral appeals," such as "enhancing compliance awareness," rather than being comprehensive enough to address operational workflows or other practical aspects of field operations. Furthermore, even after the 2022 case prompted a president's directive titled "Strict Prohibition of Improper Accounting Practices and Reinforcement of Compliance," the inappropriate use of entertainment expenses by senior management in the Soil Improvement Business Unit continued unabated.

These circumstances, along with the findings from the Committee's interviews with the Company's officers and employees, reveal a certain "atmosphere" of passive acceptance or resignation. This suggests that the practices within the Soil Improvement business, including the improper conduct uncovered by various investigations, were seen as an inevitable part of the traditional way of doing business in that sector. There was a sense that such practices were to some extent unavoidable for keeping the field operations running smoothly, and that there was no need to address them to that extent.

The investigation report from the internal committee, which included outside directors as members, stated that when considering the scope and content of business process reviews for recurrence prevention measures, "sufficient consideration is necessary from the perspective of how to construct optimal business processes, etc., based on our company's current situation, taking into account factors such as the costs involved and the impact on operational efficiency." It also indicated that the review of business processes as a recurrence prevention measure should be based on "our company's current situation."55 This too could be seen as reflecting that prevailing atmosphere. Similarly, the stance that the management department need not provide step-by-step guidance even on matters of common sense is consistent with this.

Fundamentally, many executives themselves were once participants in similar on-site practices, so it is hardly surprising they lack motivation to halt those practices.Naturally, the field side recognizes that executives themselves once held positions that tolerated similar practices. Consequently, some may view the sincerity of executives advocating compliance with skepticism. Moreover, they are unlikely to welcome changes to long-standing field practices.

[54] Excerpted from the Company's Corporate Governance Report dated June 24, 2025.
[55] Page 52 of the published version of the Internal Investigation Committee Report

However, isn't the very existence of this atmosphere the fundamental reason why the recurrence prevention measures implemented after multiple investigations lack effectiveness? Furthermore, isn't the existence of this atmosphere the root cause of the "gap" between the expectations of shareholders and other stakeholders, and the fundamental reason why conducting internal investigations and formulating recurrence prevention measures based on them fails to gain acceptance or understanding?

If so, it can be said that our management team and the Board of Directors, which should monitor and supervise them, must first break away from the atmosphere described above. As a TSE Prime-listed company, they are required to systematically and efficiently promote the planning, operation, evaluation, and continuous improvement of the internal control system without exception, ensuring thorough legal compliance and securing the effectiveness, efficiency, and reliability of financial reporting.

This necessitates changes to the way the Soil Improvement Business Unit operates, which is no easy task. However, it is imperative that "not only top management, but the entire management team once again unite to actively demonstrate a strong stance to the entire organization that it will not tolerate outdated ways of thinking and such practices," and that "the President and Representative Director must issue a strong message to all officers and employees of the Group, conveying their understanding of this matter and their firm resolve to not tolerate any misconduct whatsoever" [56]. If these steps are taken, then corrective measures involving changes to the way the Soil Improvement Business Unit operates should be considered unavoidable.

The Company must recognize that what is being questioned is not the magnitude of the impact on financial accounting, but rather the existence of the aforementioned organizational culture that undermines the reliability of financial reporting.

[56] "Outline of Recurrence Prevention Measures" attached to the Company's "Notice Regarding Receipt of the Internal Investigation Committee's Report and Recurrence Prevention Measures," dated March 31, 2025

Chapter 6 Recommendations

Section 1 Policy for Recommendations

Although unusual for a third-party committee, this Committee decided to propose in-depth improvement measures as described in Section 2.The reasons for this are twofold: first, the Committee's mandate includes evaluating improvement measures that the Company has already formulated and implemented; and second, if inappropriate conduct were to occur again in the near future, necessitating the establishment of another investigation committee, there is a risk that shareholders, investors, and other stakeholders would abandon the Company, leading to a loss of credibility and significant impairment of corporate value. Therefore, below, we have decided to point out the points that the Committee considers important so that the Company can formulate and implement better improvement measures [57].

Section 2 Recommendations for Specific Measures

1 Additional Improvement Measures Concerning Corporate Culture and Environment

(1) Perspective of Efforts

As stated in Chapter 5, Section 1, practices such as cost item transfers in Soil Improvement projects have been occurring for quite some time. These are presumed to be widespread industry customs that have persisted at our company to the present day. Furthermore, the branches where newly identified inappropriate practices occurred, as revealed by this Committee's investigation, span Tokyo, Chiba, Yokohama, Kitakanto, Tohoku, Hokkaido, Hokuriku, Osaka, Chugoku, and Kyushu, indicating that these inappropriate practices are widespread nationwide.

In Chapter 5, Section 2, this Committee pointed out that a deep-rooted "atmosphere" exists. This atmosphere stems from the recognition that the Company's executives themselves were once participants conducting business within similar field customs, and that the field personnel also perceive the executives as having previously tolerated such practices. Consequently, there is a reluctance to welcome changes to long-standing field customs. The Committee believes that this atmosphere, having become part of the corporate culture and environment, is the fundamental reason why recurrence prevention measures implemented after multiple investigations have lacked effectiveness.

Given this, the Company's Board of Directors and management must confront the reality that industry customs tolerating inappropriate conduct existed and that the Company has not escaped this history of harmful customs. They must eliminate the prevailing "atmosphere" within the Company, decisively break with harmful industry customs, eradicate them, and commit to formulating and steadily executing recurrence prevention measures with the perspective of establishing a corporate culture where all employees act in a manner befitting responsible citizens.

(2) Recommendations for Additional Preventive Measures

In response to the findings of the Internal Investigation Committee report, the Company has formulated the following recurrence prevention measures concerning the improvement of corporate culture and climate.

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[57] It goes without saying that the recommendations of this committee do not fully constrain our improvement measures. Formulating and implementing improvement measures remains the responsibility of the Board of Directors and management. If, during the review process, the company deems other improvement measures more appropriate, it should formulate and implement them.

①Declaration by Top Management that Misconduct Will Not Be Tolerated
②Revitalizing the organization through personnel reassignments, personnel exchanges, and other measures to prevent organizational stagnation
③Improvement of cost management and purchasing rules, and implementation of training related to psychological safety
④Reviewing compliance manuals and implementing training related to the 2024 case
⑤Establishment of a Culture and Business Reform Committee to incorporate internal opinions, implement various measures, instill corporate and professional ethics, and foster an open organizational culture

Therefore, based on the root cause analysis, this committee believes the following additional improvement measures should be formulated and implemented.

A Strengthening the Board of Directors and Management's Commitment to Corporate Culture and Environment Reform

Recognizing that improving corporate culture and work environment is the most critical and challenging task, the Board of Directors and management must firmly grasp the significant risks to the company posed by the occurrence of inappropriate conduct. They are strongly urged to tackle corporate culture and work environment reform with unwavering determination, focusing on the following key points.

First, it is necessary to recognize that both the 2022 case and the 2024 case stem not only from compliance issues at the operational level but also from laxity among management and senior executives, as evidenced by the inappropriate use of entertainment expenses. Furthermore, in the questionnaire survey conducted by this Committee (total responses: 949), while 624 respondents (67.17%) felt they could immediately report or consult with their supervisor or the corporate ethics helpline upon discovering a compliance violation, 305 respondents (32.83%) did not feel this way. Furthermore, 28 respondents (3.01%) reported having been instructed or pressured to conceal compliance violations, and 16 respondents (1.72%) reported experiencing retaliation or disadvantage after pointing out a compliance violation. This reveals that one-third of the company's officers and employees doubt their superiors' commitment to compliance. Before demanding strict ethical standards from the field, management and senior executives must straighten their own conduct, demonstrate their resolve to break away from inappropriate conduct, and show their genuine commitment to compliance.

Second, beyond the cases uncovered in this investigation, inappropriate use of entertainment expenses may have been widespread throughout the company, regardless of business unit. The prevalence of such inappropriate expense usage, alongside the prevalence of misconduct, further underscores that reforming our corporate culture and environment is the most critical challenge. Therefore, as an improvement measure for the 2024 case, the declaration of a break from misconduct issued by the President and CEO and each Business Division Head alone is likely insufficient. All executives and employees must once again recognize corporate culture and work environment reform as a company-wide challenge. Appropriate measures must be planned and implemented to ensure business divisions outside the Soil Improvement Business Unit do not view this as someone else's problem.

Third, the Board of Directors must recognize that reforming corporate culture and work environment is the top management priority and commit to it themselves. To achieve this, the Board should issue a declaration renouncing misconduct, resolve to tackle corporate culture and work environment reform as the most critical task, and elevate the Culture and Work Environment Reform Committee—which serves as the implementation force—to an Advisory Committee to the Board of Directors. The content and activities of this committee should then be continuously monitored.

B Establishing a Support System for the Field

Related to Point A, the distance between employees at Soil Improvement project sites and the Administration Unit is a factor preventing our recurrence prevention measures from being fully effective. Measures to reform the corporate culture that creates this distance between the field and management should be planned and implemented.

Field employees work in harsh conditions. Construction site managers, in particular, bear heavy managerial responsibilities, starting with "ensuring safety." They manage multiple sites and are constantly overwhelmed by daily tasks. They travel nationwide, staying in business hotels near sites, separated from their families. Internal relationships have also weakened in recent years, making them prone to isolation at work.

Regarding construction profit and loss management, survey results reveal that many employees feel pressure from budget management to keep gross profit margin fluctuations within a certain range. It appears that employees on-site feel a strong burden from improvement measures implemented by the Administration Unit.

Conversely, support systems for construction site managers are limited. Contact with the Construction Department Section Manager—their direct supervisor and confidant for work concerns—is infrequent. Furthermore, our Committee's investigation found little evidence that administrative departments under the Administration Unit are effectively resolving the operational worries and anxieties of construction site managers or providing them with support. Hearings with Administration Unit personnel revealed a prevalent view, based on the 2022 case and the 2024 case, that inappropriate conduct stems from individual ethical standards or character flaws. Regarding field manuals, one manager stated during a hearing that there was an opinion asking, "Why do we have to provide such step-by-step guidance?" This symbolizes the Administration Unit's cold perspective of the field. Many employees in the administrative department joined mid-career and have virtually no hands-on field experience. They also have limited contact with field employees, lacking an environment where they can genuinely understand the harsh realities and struggles of the field. There are clear communication issues between the two sides, raising concerns that this situation may be leading to the stance that "all inappropriate conduct stems from field employees' ethical standards."

Measures should be considered to bridge the disconnect in awareness between frontline employees and administrative staff and foster a sense of unity.

2 Additional Governance Improvement Measures

(1) Improving Board Dysfunction

As revealed by this Committee's investigation, the Board of Directors' involvement in formulating recurrence prevention measures, monitoring their implementation, and verifying their effectiveness has been inadequate. Regarding these matters, the Board is dysfunctional. In particular, while outside directors, who are expected to lead this process, appear to have made general comments during the formulation stage, it seems they have made almost no statements on this matter in Board meetings after the measures were established [58]. Therefore, the following improvement measures should be formulated and implemented.

A Review of the Appropriateness and Feasibility of Recurrence Prevention Measures

The Board of Directors should thoroughly discuss the adequacy and feasibility of the current recurrence prevention measures, delving into their substance, based on this Committee's findings. Notably, among the recurrence prevention measures for the 2022 investigation, documentation was partially incomplete. This indicates insufficient internal control framework construction. The weaknesses in the Audit Department, discussed later, also stem from internal control framework construction issues. Furthermore, the responsibility for establishing internal controls lies with the directors, and the Board of Directors failed to fulfill this duty. Each director and the Board of Directors should renew their understanding of this point and fulfill their responsibilities regarding the establishment of internal controls.

B Increasing the Frequency of Progress Reports and Implementing Scrutiny and Verification

The current situation, where reports on the implementation status of recurrence prevention measures to the board of directors are infrequent, must be improved. For the time being, the executive side should be required to submit reports monthly, and efforts should be made to gather information from the field. Furthermore, since verification of whether improvement measures are effective should be conducted, sufficient materials should be submitted by the executive side for review.

For example, the Corporate Culture and Business Reform Committee conducts questionnaire surveys. Such surveys should be conducted continuously on an annual basis, and the results should be reported to the Board of Directors along with detailed data for discussion.

Furthermore, regarding the results of the Audit Department's audits, audit reports must be submitted to the Board of Directors in a timely manner, and close attention should be paid to the Audit Department's findings.

Based on such reports, verification by the board of directors should assess the effectiveness of recurrence prevention measures. This enables further updating and implementation of these measures. Only by reaching this stage is the PDCA cycle truly realized. It is only by turning the PDCA cycle that the board of directors can be said to be performing effective oversight. The board should fulfill its oversight responsibility with this as its goal.

C Improving Dysfunction in Nomination Governance

Regarding nomination governance, the Nomination and Compensation Advisory Committee has been reviewing only the director candidate proposals submitted by the President, without undergoing a process of selecting and narrowing down multiple candidates. Furthermore, these proposals have been approved with little discussion, and the candidate proposals have been submitted to the Board of Directors.

[58] While the Board minutes do not record the deliberation process, making verification by this Committee impossible, interviews with officers lead us to conclude that there was little discussion regarding follow-up on the implementation status of the formulated improvement measures.

Regarding candidates for Audit and Supervisory Committee members, following the discovery of the 2022 case where accounting risks materialized, the company was in a situation where it should have strengthened its structure by appointing individuals with expertise in auditing and accounting to the Audit and Supervisory Committee upon the expiration of the term of the full-time Audit and Supervisory Committee member.

As described above, the Company's current practice does not involve the Nomination and Compensation Advisory Committee narrowing down candidates from a pool of multiple nominees. Furthermore, the practice does not involve selecting suitable candidates capable of addressing risks based on the Company's risk situation at any given time, considering expertise and experience. Consequently, achieving the purpose of nomination governance is difficult. The Company should review this structure and operational practices and establish a practice where the Nomination and Compensation Advisory Committee selects director candidates through an appropriate process.

Specifically, consideration should be given to incorporating procedures for narrowing down candidates into internal regulations, such as adopting a format where multiple candidates are proposed for a single position.

Furthermore, since the Nomination and Compensation Advisory Committee is an advisory body to the Board of Directors, the Board bears ultimate responsibility for its structure and operation. The Board should improve the current situation where nomination governance has become a mere formality.

D Improving Board Meeting Minutes

This committee investigated the board meeting minutes, existing audio recordings, and board meeting memos. The minutes did not record the course of discussions, and although audio recordings were available, it was impossible to verify the deliberation process. The purpose of the Company Act's provisions on minutes is to maintain verifiable records, but the company has failed to achieve this. This situation must be rectified immediately.

(2) Improving the Dysfunction of the Audit and Supervisory Committee

A Appropriate Exercise of Authority by the Audit and Supervisory Committee

Since the Audit and Supervisory Committee was aware of the weakness in the Audit Department, it was possible and should have formally resolved to submit opinions to the executive side. First, it could have demanded the President and Representative Director implement staffing increases based on the Audit and Supervisory Committee's resolution. If the President and Representative Director did not act promptly, or if the President issued instructions but the staffing process stalled for any reason, the Committee could have assessed the situation and demanded accelerated hiring.

Furthermore, the Audit and Supervisory Committee could have pointed this out in its audit opinion as an observation regarding the audit of the status of the internal control system's development [59].

[59] Furthermore, it should be noted that if the content of the Audit and Supervisory Committee's audit report differs from their own opinion, an Audit and Supervisory Committee member can append their own opinion. Thus, even if they cannot obtain the agreement of other Audit and Supervisory Committee members and the audit report does not point out the audit department's weaknesses, this member can still take action to increase the audit department's staffing (see Article 130-2, Paragraph 1 of the Enforcement Regulations of the Companies Act).

As described above, the Audit and Supervisory Committee possesses legal means to actively pursue corrective action rather than passively observing the status quo.

Management was aware of the audit department's weaknesses but faced delays in addressing them due to difficulties in promoting personnel internally amid a general talent shortage. Therefore, the Audit and Supervisory Committee should exercise its authority appropriately and without hesitation, as it can be expected to further accelerate management's response through the aforementioned actions.

B Strengthening the Audit and Supervisory Committee Structure and Prompt Implementation of Audits

Implementing the Audit and Supervisory Committee model under the current Audit Department conditions would result in the Audit and Supervisory Committee remaining dysfunctional. Restoring the Committee's functionality will be difficult unless the situation—where the vulnerable Audit Department serves as the secretariat for the Audit and Supervisory Committee and there is only one full-time Audit and Supervisory Committee member—is improved.

Therefore, measures such as increasing the number of full-time Audit and Supervisory Committee members, strengthening and expanding the secretariat structure composed of the Audit Department and the General Affairs Department, and utilizing external audit support services should be implemented to reinforce the Audit and Supervisory Committee's structure. This would enable the prompt execution of a greater number of on-site audits in collaboration with the Audit Department.

Beyond this, it would also be worth considering having not only full-time but also part-time Audit and Supervisory Committee members appropriately share and execute audit duties. While this approach deviates from the audit methodology of the Audit and Supervisory Committee model, under the current circumstances, we should consider responding flexibly without being constrained by the model. Furthermore, the Audit and Supervisory Committee should secure the budget necessary to implement these various measures.

C Improving Audit and Supervisory Committee Meeting Minutes

Similar to board meeting minutes, minutes of Audit and Supervisory Committee meetings currently do not record the course of discussions, making it impossible to verify the deliberation process. This situation must be improved immediately.

3 Additional Improvement Measures for Internal Controls

(1) Strengthening "Information and Communication"

The Committee's investigation revealed that the suspicion of underreporting in overseas construction projects under the jurisdiction of the International Department, identified during the Tokyo Regional Taxation Bureau's tax audit initiated in December 2024, was not immediately reported by the Finance Department to the Head of the Administration Unit. Consequently, it was not promptly reported to the President and Representative Director, the Risk Management Committee, outside directors, or Audit and Supervisory Committee members, nor was it communicated to the internal investigation committee. While the Committee does not consider the underreporting itself to be inappropriate conduct, it has determined that the failure to report such a significant finding from the tax audit constitutes inappropriate conduct that violates the Compliance Manual, which mandates immediate reporting of compliance violations. Such a situation carries significant risk, not only as a compliance violation, but also as a failure of internal controls, leading to a situation where responsible senior management, who should have made the necessary judgments, remained unaware and no appropriate action was taken.

Furthermore, the failure to implement measures listed as recurrence prevention for the 2022 case—such as "documenting rules for creating replacement vouchers" and "formalizing fraud detection methods for ordering procedures"—due to reasons including lack of consensus among relevant departments, was an incident that could have been prevented by ensuring thorough "information and communication."

Management should instruct and ensure that all critical information is promptly reported to superiors and that information and communication are reliably executed throughout the organization.

(2) Strengthening the Internal Audit System

While senior executives recognized the need to increase Audit Department staffing, it is acknowledged that internal talent development proved difficult, necessitating the recruitment of external personnel. However, no sufficient evidence was found to indicate the Company took action to expedite this staffing increase. Increasing Audit Department personnel is an urgent priority for the Company. The fact that the Audit Department discovered misconduct during this Committee's investigation demonstrates that the penetration of internal audit activities is critically important for detecting and controlling misconduct. The Board of Directors and management should prioritize securing Audit Department personnel and focus their efforts on achieving this.

(3) Additional Improvement Measures for Profit and Loss Management

A Clarifying the Significance of Individual Cost Management

As stated in Chapter 5, Section 1, within the Company's Soil Improvement Business Unit, the practice of achieving a predetermined gross profit margin for each project has become an end in itself. This has led to cost reallocation to achieve this margin, ultimately undermining the integrity of individual cost management. The significance of individual cost management lies in securing overall profitability for the Soil Improvement Business Unit. It is essential to clarify that its purpose is not to force every individual project's gross profit margin within a fixed range. Furthermore, recognizing that deviations in gross profit margin are not solely attributable to the construction site manager, it is crucial to thoroughly communicate to construction site managers that deviations within individual cost management are acceptable. Moreover, even when explanations are requested for deviations, procedures should be simplified (including digital transformation of documentation) to avoid creating burdensome requirements that discourage site managers from providing explanations.

B Reviewing the Framework Where Individual Construction Sites Bear Machine Repair Costs

As described in Chapter 4, Section 1, Section 3, the current system where the Machine Center charges individual construction sites for repairs to machinery used on-site has become a factor contributing to cost transfers. The Machine Center effectively acts as a profit regulator for construction sites precisely because this framework persists. Fundamentally, machinery breakdowns at sites are unavoidable, and predicting when or where they will occur is impossible. Therefore, it is questionable whether individual sites need to budget for and manage these costs separately under individual cost management. Instead, these repair expenses should be considered for budgeting as common costs across the entire Soil Improvement Business Unit. Furthermore, the Machine Center is already an administration department within our company and is not inherently required to generate profit. It is also questionable whether there is a strong necessity to add the billing function—sending invoices to construction sites for machinery management, repairs, and maintenance—to its existing duties. On the other hand, the positive aspects brought about by this framework are not clear. Therefore, a review of the current framework should be considered. Fundamentally, machinery breakdowns at sites are unavoidable, and predicting when or where they will occur is impossible. Therefore, it is questionable whether individual sites need to budget for and manage these costs separately under individual cost management. Instead, these repair expenses should be considered for budgeting as common costs across the entire Soil Improvement Business Unit. Furthermore, the Machine Center is already an administration department within our company and is not inherently required to generate profit. It is also questionable whether there is a strong necessity to add the billing function—sending invoices to construction sites for machinery management, repairs, and maintenance—to its existing duties. On the other hand, the positive aspects brought about by this framework are not clear. Therefore, a review of the current framework should be considered.

C Classifying Costs Not Tied to Specific Projects as General Administrative Expenses

There exist expenses whose allocation method is unclear, such as fuel for liaison vehicles incurred between the completion of one project and the start of the next, or supplies used across site offices and multiple sites, where the link to a specific individual project is ambiguous. To assign these to a specific project, they are often transferred to profitable projects. For such expenses, a system should be established and clarified to enable site managers to easily cover them through general administrative expenses.

(4) Improvement Measures Regarding Entertainment Expenses

Inappropriate use of entertainment expenses has become a factor inducing improper conduct during internal gatherings. Furthermore, senior management was also involved in the inappropriate use of these funds. It is highly probable that numerous similar cases exist beyond those uncovered by this committee's investigation. As previously stated, management must take this fact seriously. Based on this, the following improvement measures should be considered.

A Clarifying the Position and Procedures for Internal Social Gathering Expenses through Internal Regulations

It is not difficult to imagine that the practice of recognizing expenses for internal social gatherings as entertainment expenses within our company stemmed from an intention to acknowledge the necessity of such gatherings, to recognize them as expenses within a certain scope, and to reduce the burden on individuals. Indeed, internal gatherings are likely useful for fostering communication within the company. However, if this is the case, the company regulations should clearly define the status of internal gatherings. They should specify under what circumstances they can be held, the scope and budget limits permitted, how expenses should be categorized (as entertainment expenses, general administrative expenses, or welfare expenses), and what application procedures should be followed. Furthermore, alongside reviewing the status and procedures for internal gatherings, procedures for entertainment expenses related to external business partners should also be revised to prevent misuse.

B Countermeasures against inappropriate use of entertainment expenses as construction costs by sales department sections

The Committee's investigation revealed practices such as explicit or implicit instructions or requests to construction site managers to suppress the use of site entertainment expenses; targeting sites managed by junior construction site managers when selecting sites to utilize such expenses; false reporting concerning absent site managers or business partners; and requests to the Administration Unit to create lists to track site entertainment expense balances. The Company should prohibit such actions.

Furthermore, regarding the use of entertainment expenses as construction costs, if the Sales Department is permitted to use them, measures should be introduced to strengthen control and checks by the construction site manager responsible for individual cost management and their superior, the Construction Department Section Chief. The Sales Department should be held partially responsible for any upward revision of construction costs due to entertainment expense usage.

C Implementation of Training for Senior Management and Supervisors, Including Executives

In addition to implementing the above improvement measures, training should be conducted for senior personnel, including executives, and managers across all departments. This training should ensure they understand the circumstances where inappropriate use of entertainment expenses contributed to improper conduct and the new framework for entertainment expenses that will be established through the aforementioned improvement measures.

(5) Education for Site Managers of Soil Improvement Projects, etc.

A Clarification of Accounting and Administrative Procedures, Manual Creation, and Training

Accounting and administrative procedures that Soil Improvement project workers must understand should be clarified and established. Regulations that clearly outline the duties construction site managers must perform regarding ordering and payment operations should be developed, ensuring they are easily understandable and based on actual site conditions. These regulations should be structured so that construction site managers can readily reference them in their daily work. Similarly, developing manuals for supervisors should also be considered.

B Review of the Training System for Construction Site Managers, etc.

In addition to developing the manuals mentioned above, a system should be established to conduct training and guidance to ensure their thorough dissemination. In doing so, training materials should be reviewed to ensure they effectively instill an understanding of why proper accounting and administrative procedures are crucial. Raising awareness of the importance of proper administrative and accounting practices is key to deterring the psychological temptation toward improper conduct. Similar improvements are also necessary for managerial positions such as Construction Department Section Managers and Sales Department Section Managers.

Regarding training, while our company maintains complete attendance records, we lack a follow-up system, such as tests, to measure the effectiveness of the training. As corporate training methods diversify—including face-to-face sessions, CBT (Computer-Based Training), and video streaming—we should consider both the implementation methods and the establishment of a follow-up system.

C Clarifying and Simplifying Order Approval Procedures

The focus points and responsibility for approving purchase requests should be clarified. Furthermore, to address the motivation for inappropriate actions stemming from "cumbersome procedures," consideration should be given to simplifying the application process through digital transformation (DX). Additionally, regarding approval procedures at work sites, considering the fact that administrative staff were involved in inappropriate actions under the direction of construction site managers, measures to strengthen reactive controls (post-event controls) by the Administration Unit over work sites should be examined. .

D Strict Handling of Violations

While implementing the above improvement measures, it should be made clear that violations of regulations will be dealt with strictly.

E Measures Regarding Partner Companies

In addition to the measures for handling cooperating contractors recommended in the Internal Investigation Committee Report (such as refusing improper requests and urging reporting) [60], contracts should include clauses stating that non-compliance may result in suspension of transactions or termination of the contract. Furthermore, efforts should be made to carefully explain to cooperating contractors the importance of these clauses in deterring inappropriate conduct and to gain their understanding.

[60] Internal Investigation Committee Report (Public Version), Page 56

Appendix 1 Overview of Digital Forensic Investigation

1 Purpose of the Investigation

Foxcale Inc. (hereinafter "Foxcale"), commissioned by this Committee, conducted a digital forensics investigation to investigate inappropriate conduct and perform other investigations required by this Committee.

2 Investigation Methodology

(1) Overview of Electronic Data Preservation, Analysis, and Review

The Company provides PCs and smartphones to its officers and employees. Foxcale preserved the PCs and smartphones provided by the Company for some of the individuals subject to the investigation.

Additionally, our company has been using Gmail as its email system since August 2018 and Google Chat as its chat system[1].Gmail data and Google Chat data have been retrievable since August 2018 using Google Vault within Google Workspace. However, Google Vault was only activated after January 2025. Consequently, for deleted data, only data deleted by users after January 2025 is retained. Meanwhile, our company uses HENNGE One, an email archiving service. This service stores email data, including deleted data from the past year counted from the preservation date, on its servers. Therefore, from the perspective of comprehensive preservation of deleted data, foxcale received the subject's email data and Google Chat data downloaded from Google Vault by our company, as well as the email data downloaded from HENNGE One [2].The receipt of Gmail data and Google Chat data was conducted in phases between August 21, 2025, and November 5, 2025, as required for the investigation. Therefore, the start date for the subject's data is August 2018, when the email system was first used, and the end date is the preservation date, meaning the investigation covers the period up to November 5, 2025, at the latest.

The Commission determined the scope of data analysis and review for the preserved data, considering its investigative validity.

The summary of the devices and electronic data preserved or received, and the subjects of analysis and review, are as follows.

① Partner Company Domain

[1] Data acquired during downloads without specifying a start date includes some data from July 2018; however, this has no significant impact on the investigation.
[2] If users deleted email data prior to our implementation of Google Vault, deleted data from the past year starting from the preservation date is stored on HENNGE One servers. Therefore, deleted data from approximately six months prior to January 2025 can be retrieved from HENNGE One.

Considering that the internal investigation findings revealed the subject of the investigation had carried out inappropriate actions with the cooperation of a contractor, this Committee decided to investigate Gmail data containing the domain of a specific contractor from the email data of all our officers and employees. When selecting the contractors, in addition to those already identified in the internal investigation as having cooperated in the inappropriate actions, this Committee selected contractors based on certain assumptions. These assumptions were that the contractors had similar average order amounts, number of orders, and order value scale for orders placed via contractor-specific work site approvals. Regarding this data, foxcale received the data downloaded by the Company from Google Workspace and HENNGE One and performed analysis and review. The summary is as shown in the table below.

Target Companies	Security	Analysis/Review
Mr./Ms. ●●	○	○
Mr./Ms. ●●	○	○
Mr./Ms. ●●	○	○

② **Subjects of the Internal Investigation**

Regarding subjects of the internal investigation, foxcale retained data preserved during the internal investigation and utilized this data. However, data from the period between the preservation point during the internal investigation and the establishment of this committee was not subject to preservation. Therefore, foxcale received the differential Gmail data and Google Chat data downloaded by our company from Google Workspace and HENNGE One. Additionally, where circumstances such as replacement of the subject's PC occurred, foxcale preserved the relevant PC and smartphone. The summary is as shown in the table below.

Note that PCs and smartphones were not subject to analysis or review by this committee, considering that no significant data was discovered during the internal investigation.

Subject	Subject of Preservation	Preservation Date	Analysis/Review
Mr./Ms. ●●	Laptop PC	Internal Investigation	
	Smartphone	Same as above	
	Gmail Data	Regarding internal investigations and discrepancies, this committee	○
	Google Chat Data	Same as above	○
Mr./Ms. ●●	Laptop PC	Internal investigation	
	Smartphone	Same as above	
	Gmail Data	Regarding internal investigations and discrepancies, this committee	○
	Google Chat Data	Same as above	○
Mr./Ms. ●●	Laptop PC①	Internal Investigation	
	Laptop PC②	This Committee	
	Smartphone	Internal Investigation and This Committee (Re-preservation of the same device)	
	Gmail Data	Internal investigation and differences regarding this committee	○
	Google Chat Data	Same as above	○

③ **Subjects of Investigation by this Committee**

This committee preserved, analyzed, and reviewed data from the following subjects to the extent necessary for the investigation.

Subjects were selected as follows: first, individuals alleged to have committed inappropriate acts during the internal investigation and their superiors; second, individuals confirmed to have committed inappropriate acts based on the results of the investigation described in ① above; third, considering the impact on the investigation, the scope included communications between directors and executive officers; and finally, the scope was expanded as necessary. The summary is shown in the table below.

Subjects	Subjects Subject to Preservation					Subjects for Analysis and Review	
	Laptop PC①	Laptop PC②	Smartphone	Gmail	Google Chat	Gmail	Google Chat
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○	○	○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○	○	○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●	○		○	○	○	○	○
Mr./Ms. ●●				○	○	○	○
Mr./Ms. ●●				○	○	○	○
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Mr./Ms. ●●				○	○	○	○
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Mr./Ms. ●●				○	○	○	○
Mr./Ms. ●●				○	○	○	○
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Mr./Ms. ●●				○	○	○	○
Mr./Ms. ●●				○	○	○	○
Mr./Ms. ●●				○	○	○	○
Mr./Ms. ●●				○	○	○	○
Mr./Ms. ●●				○	○	○	○
Mr./Ms. ●●				○	○	○	○
Mr./Ms. ●●				○	○	○	○
Mr./Ms. ●●				○	○	○	○

(2) Gmail Data, Document Data, and Google Chat Data Investigation Overview

The Gmail data, document data, and Google Chat data preserved from the mail server were processed into a database using specialized software and then uploaded to the investigation review platform "foxcope-DI".

The data uploaded to "foxcope-DI" was filtered using keywords and other criteria set by this committee, and the resulting data was reviewed. The number of reviews is as follows.

No	Data Subject to Review	Number of Reviews
1	Gmail Data and Document Data	51,910
2	Google Chat Data	94
Total		52,004

Regarding the review system, an initial review was conducted by foxcale following the review protocol (instructions for reviewers) established by this committee. For the 347 data points deemed significant during the initial review, a secondary review was conducted by this committee. For data requiring detailed examination based on the committee's review, additional investigations such as hearings were conducted by this committee.

In addition to the review using the above keywords, the committee reviewed documents from the entire review platform as necessary and conducted additional investigations, such as interviews, on the obtained data as required.

Appendix 2 Analysis of Anonymous Questionnaire

[Summary of Employee Questionnaire Implementation]

This committee conducted an employee survey targeting all officers and employees (hereinafter referred to as "subjects") who were employed by our company and Soil Technica as of September 12, 2025, for the purpose of analyzing the causes (including corporate culture and industry practices) of inappropriate conduct similar to or analogous to this case and examining measures to prevent recurrence. The survey was conducted according to the following outline.

Survey Method:	On September 12, 2025, emails were sent to the Subjects requesting responses via a designated online survey system.
Response Method:	Anonymous
Response Period:	September 12, 2025 to September 19, 2025
Respondents:	Total: 1,024
Number of Respondents:	Total: 995 (Response rate: approx. 97.1%)

[Data Aggregation Method]

- Responses to Yes/No (Yes/No, Feel/Do not feel) questions were compiled into a table showing the number of responses and the percentage. Percentages are rounded to the second decimal place; third decimal places and beyond are omitted.
- For multiple-choice questions, only the number of responses was compiled into a table.
- Aggregate data for questions requiring specific written responses is not included.

<Question 1 Experience as a Construction Site Manager>

Have you ever worked at a construction site as a site manager (hereinafter referred to as "construction site manager") or in a responsible capacity?	**Number of responses**	**Percentage**
① Experience as a construction site manager, etc., in Soil Improvement projects	210	21.19%
② Experience as a construction site manager or equivalent in Civil Engineering projects other than Soil Improvement projects	172	17.36%
③ None	609	61.45%
Total	991	

<Question 2　Regarding fictitious and inflated orders in Soil Improvement work>

(1) While working as a site manager or field supervisor for Soil Improvement projects, did you ever provide beverages such as beer or juice, or other items to field workers, or did the need for such provisions arise?	**Number of responses**	**Percentage**
①　Yes	117	55.71%
②　No	93	44.29%
Total	210	

(2) If you answered "Yes" to (1) regarding providing beverages or similar items to on-site workers, how did you cover the cost (or items)?	**Number of responses**
①　Properly processed as labor management expenses or entertainment expenses for the construction site	46
②　Within the same project, after receiving deliveries of beverages, etc., from partner companies, we had them submit fictitious invoices to our company under different names (such as construction materials or equipment) and processed them as construction costs.	12
③　Within the same project, instructed a partner company to submit fictitious or inflated invoices, diverted a portion of the payment made by our company to the partner company back to oneself (received kickbacks), and used it to cover expenses such as beverages	1
④　When profits were secured at one site, fictitious or inflated orders were placed with subcontractors at another site. The payment for these orders was pooled with the subcontractor, who then used the pooled funds to purchase receipts. These receipts were subsequently used to cover expenses such as beverages.	3
⑤　I have paid out of my own pocket.	29
⑥　Other (specify)	39

【Analysis】

Of the total 130 responses, only 46 (35%) stated that expenses were properly processed as labor management costs or entertainment expenses at construction sites. Even excluding the 29 responses (22%) indicating personal payment, the remaining 55 responses (42%) reported improper handling such as reclassifying expenses within the same project, using pooled funds, or purchasing receipts.

Other noteworthy responses included the following:

・Purchased beverages, etc., at home centers and processed receipts under the name of necessary site supplies.

・Previously, only receipts totaling 8,000 yen or less required attachment. For smaller amounts, the expense category was changed during receipt processing.

・Receipts were sent to X Company per superior's instructions (did not know how they were processed).

(5) Aside from gifts for field workers, have you ever encountered difficulties processing expenses incurred for business purposes through proper channels?	**Number of responses**	**Percentage**
① Yes	25	12.25%
② No	179	87.75%
Total	204	

【Analysis】

Out of a total of 204 responses, 25 (12.25%) indicated they had encountered difficulties.

(7) If you answered ① "Yes" in (5), how did you cover the costs?	**Number of responses**
① Explained to the accounting department and processed it properly	0
② Within the same project, we had subcontractors bill under different item names than the actual goods delivered, compensating by reclassifying expense categories.	4
③ Within the same project, instructed subcontractors to submit fictitious or inflated invoices, diverted a portion of payments made by our company to subcontractors to oneself (received kickbacks), and used those funds to cover the relevant expenses.	0
④ At another site where profits were secured, instructed subcontractors to place fictitious or inflated orders, had the payment funds pooled by the subcontractors, and used that pooled money to purchased receipts to cover those expenses.	0
⑤ I have personally covered expenses out of my own pocket.	17
⑥ Other (specify)	8

【Analysis】

Of the 29 total responses, 17 (58%) indicated they paid the expense personally (paid out of pocket), while 4 indicated reimbursement through cost item transfers. Other responses included: "settled via transportation expenses," "handed receipts to the construction site manager," "delegated to the Construction Department Section Manager," and "processed via cost reallocation but paid the inflated amount to the contractor at that time." The total number of responses indicating such non-standard processing reached 29.

Regarding the timing of such practices, responses included "prior to 2008," "about 9 years ago," and "around 5 years ago," indicating that inappropriate conduct occurred over a broad period.

(10) When a project seemed likely to exceed its initially projected profit, did you ever consider reallocating that budget to a project where profits were likely to fall short of initial projections?		**Number of responses**	**Percentage**
①	Yes	21	10.34%
②	No	182	89.66%
Total		203	

【Analysis】

Out of a total of 203 responses, 21 respondents (10.34%) indicated they had considered repurposing the information.

(11) If you answered ①in (10), what was your reason?		**Number of responses**	**Percentage**
①	Because a large gap between budget and actual results leads to poor performance evaluations	2	8.00%
②	It's a hassle to explain the reasons for each discrepancy between budget and actual results.	10	40.00%
③	Other (specify)	13	52.00%
Total		25	

【Analysis】

There were a total of 25 responses regarding the reasons for considering reassignment. Among these reasons, the following responses are noteworthy:

・It was anticipated that securing the next assignment would take time and that there would be no available funds to use.
・Because explaining the discrepancy between budget and actual results to superiors would be difficult.
・Because I believe there will be more leeway in the budget for the next project.
・To address discrepancies in profit margins or negative items between adjacent projects.
・Since joining the company (Author's note: 38 years ago), supervisors had also reallocated expenses, so I did it too.
・Until this incident occurred, I had not been taught that each worksite was taxed on its individual profit; I understood taxation applied to the company's total profit. I viewed the desire to avoid discrepancies between the assumed gross profit during NET review and the actual gross profit after project completion as simply a company rule and a reason to avoid criticism that the NET review system was lenient.

(12) If you answered ①in (10), have you ever actually reallocated the budget estimate for one site to another site?	**Number of responses**	**Percentage**
① Yes	13	52.00%
② No	12	48.00%
Total	25	

Of the 25 total responses, 13 (52.00%) answered "Yes."

(15) Have you ever placed fictitious or inflated orders with partner companies for personal gain and received cash, gift certificates, or other valuables?	**Number of responses**	**Percentage**
① Yes	5	2.49%
② No	196	97.51%
Total	201	

【Analysis】

Of the total 201 responses, 5 cases (2.49%) indicated they had received cash, gift certificates, or other valuables

.

<Question 3　Regarding fictitious or inflated orders in civil engineering projects, etc.>

(1) While working as a site manager or field supervisor on Civil Engineering projects other than Soil Improvement projects, have you ever provided field workers with beverages such as beer or juice, other goods, or had a need to provide such items?	**Number of responses**	**Percentage**
①　Yes	100	57.80%
②　No	73	42.20%
Total	173	

【Analysis】

Out of a total of 173 responses, 100 (57.80%) indicated that they had provided beverages such as beer or juice, or other items, to on-site workers during Civil Engineering projects other than Soil Improvement projects, or that such provision had been necessary.

This percentage is not significantly different from the "Yes" percentage (55.71%) for Soil Improvement in the above Question 2(1).

(2) For those who answered "Yes" to providing beverages or other items to field workers in (1), how were the costs (or items) covered? (Multiple answers allowed).	**Number of responses**
①　Processed formally as labor management expenses or entertainment expenses for the construction site	57
②　Within the same project, after receiving deliveries of beverages, etc., from partner companies, we had them submit fictitious invoices to our company under different names (such as construction materials or equipment) and processed them as project costs.	1
③　Within the same construction project, instructed a partner company to submit fictitious or inflated invoices, diverted a portion of the payment made by our company to the partner company back to oneself (received kickbacks), and used it to cover expenses such as beverages	1
④　On a separate job site where profits were secured, I instructed a subcontractor to place fictitious or inflated orders. I had the subcontractor pool the payment funds, then used those pooled funds to purchase receipts to cover expenses such as beverages.	0
⑤　I have personally covered expenses out of my own pocket.	60
⑥　Other (specify)	25

【Analysis】

Of the total 144 responses, 57 indicated that the expenses were properly processed. On the other hand, 60 responses indicated that the respondents had paid out of their own pocket. Furthermore, there was one instance each of expense category reassignment within the same project. However, no specific details regarding timing or actions were reported, and there was insufficient information to conduct an investigation.

Other responses included numerous mentions of miscellaneous expenses, labor management fees, safety expenses, etc.

(5) Aside from gifts to site workers, have you ever encountered difficulties in properly processing expenses incurred during business operations?	**Number of responses**	**Percentage**
① Yes	10	5.81%
② No	162	94.19%
Total	172	

【Analysis】

Out of a total of 172 responses, 10 (5.81%) indicated they had encountered problems.
This percentage is lower than the "Yes" percentage (12.25%) for Soil Improvement in the above Question 2(5).

(7) If you answered ①"Yes" in (5), how did you cover the costs? (Multiple answers allowed)	**Number of responses**
① Processed formally by explaining to the accounting department, etc.	2
② Within the same project, we had a subcontractor bill under a different item name than the actual delivered goods and compensated by reclassifying the expense category.	1
③ Within the same project, instructed subcontractors to submit fictitious or inflated invoices, diverted a portion of the payments made by our company to the subcontractors back to myself (received kickbacks), and used those funds to cover the relevant expenses.	1
④ At another site where profits were secured, I had subcontractors place fictitious or inflated orders, pooling the payment funds with the subcontractors, and then had them purchase receipts with that pooled money	1
⑤ I have personally covered expenses out of my own pocket.	4
⑥ Other (specify)	4

【Analysis】

Out of a total of 13 responses, 4 (30%) indicated they paid out of pocket, and there was one instance each of cost item reallocation within the same project.
Other noteworthy responses included the following:

・Shifted the burden onto partner companies
・Adjusted the invoice amount
・Processing after creating a formal approval document
However, no specific timing or actions were reported, and there was insufficient information to conduct an investigation.

(10) When a project appeared likely to exceed its initially projected profit, did you ever consider reallocating that budget to projects where profits were expected to fall short of initial projections?	**Number of responses**	**Percentage**
① Yes	12	7.02%
② No	159	92.98%
Total	171	

【Analysis】

Out of a total of 171 responses, 12 (7.02%) indicated they had encountered problems.
This percentage is not significantly different from the "Yes" percentage (10.34%) for Soil Improvement work in the above Question 2(10).

(11) If you answered ①"Yes" in (10), what was the reason?	**Number of responses**	**Percentage**
① Because a large gap between budget and actual results leads to poor performance evaluations	2	15.38%
② Because explaining the reasons for each discrepancy between budget and actual results is troublesome.	5	38.46%
③ Other (specify)	6	46.15%
Total	13	

【Analysis】
There were a total of 13 responses regarding the reasons for considering reuse.
Other noteworthy responses included the following:

・When estimates spanned fiscal periods, there was leftover work to manage, yet construction management fees couldn't be carried over.
・Since the circumstances at the time of order acceptance differ for each project, I sometimes thought it could be helpful for difficult projects.
・I was instructed to do so by my supervisor.
・To carry over profits for the fiscal year performance.
・Supervisor's instruction. Even if profits exceeded projections, it would only lead to reprimands.
・I had heard that if a project closed with a negative budget, the internal processing for that was extremely troublesome, though I had no personal experience.

(12) If you answered ①"Yes" in (10), have you ever actually reallocated the budget from one site to another?	**Number of responses**	**Percentage**
① Yes	4	33.33%
② No	8	66.67%
Total	12	

【Analysis】

Out of a total of 12 responses, 4 (33.33%) answered "Yes."

This percentage is lower than the "Yes" percentage (52.00%) for Soil Improvement work in the above Question 2(12).

(15) Have you ever instructed a partner company to place fictitious or inflated orders for the purpose of personal embezzlement, and received cash, gift certificates, or other valuables?	**Number of responses**	**Percentage**
① Yes	2	1.17%
② No	169	98.83%
Total	171	

【Analysis】

Out of a total of 171 responses, fictitious or inflated orders were placed for personal embezzlement, involving cash, gift certificates, etc. Two respondents (1.17%) indicated they had received money or valuables.

This percentage is lower than the "Yes" percentage (2.49%) for Soil Improvement work in the above Question 2(12).

<Question 4 Have you ever seen or heard of improper accounting practices like those in this case?

(1) Have you ever seen or heard of fictitious or inflated orders like those in this case, or other improper accounting practices?	**Number of responses**	**Percentage**
① Yes	67	6.84%
② No	913	93.16%
Total	980	

【Analysis】
Of the total 980 responses, 67 responses (6.84%) indicated they had seen or heard of fictitious or inflated orders like the one in question, or other improper accounting practices.

(4) If you answered ①"Yes" in (1), did you report it to someone or make an internal disclosure?	**Number of responses**	**Percentage**
① Yes	2	2.94%
② No	66	97.06%
Total	68	

【Analysis】
Of the total 68 responses, only 2 (2.94%) indicated they had reported to someone or made an internal report.
This is significantly lower than the 67 cases (2.94%) who reported seeing or hearing about such issues as mentioned in (1) above. This is significantly lower than the 67 instances of witnessing or hearing about such issues mentioned in (1) above, resulting in a reporting rate of approximately 2%. These survey results suggest that while our company has established an internal whistleblowing system, awareness and understanding of the whistleblowing system may have been insufficient, leading employees to not consider reporting the inappropriate accounting practices. Furthermore, since the accounting practices in question were methods learned from superiors, senior colleagues, or business partners, it is also possible that employees lacked the recognition that these practices were inappropriate in the first place, preventing them from reporting.

<Question 5　Background of the Occurrence of the Fraudulent Conduct in This Case>

(1) In this case, fraudulent activities such as cost shifting and personal misappropriation were uncovered in the Soil Improvement business through fictitious/inflated orders to partner companies and requests to purchase receipts. Do you believe such fraudulent in civil engineering projects as well?	**Number of responses**	**Percentage**
① It is possible that such misconduct could occur in Civil Engineering projects as well.	287	29.44%
② Impossible in Civil Engineering projects	71	7.28%
③ Don't know	617	63.28%
Total	975	

【Analysis】

Of the total 975 responses, 287 (29.44%) indicated that it is feasible within civil engineering projects, significantly exceeding the 71 responses (7.28%) that deemed it impossible.

(3) Do you feel that budget management pressure is severe for construction projects, not limited to Soil Improvement projects?	**Number of responses**	**Percentage**
① Yes	279	29.12%
② Don't feel	145	15.14%
③ Don't know	534	55.74%
Total	958	

(5) At our company, we feel the pressure of budget management in sales operations is high, not just in the Soil Improvement business. Do you feel the pressure is intense?	**Number of responses**	**Percentage**
① Yes	129	13.56%
② Don't feel	168	17.67%
③ Don't know	654	68.77%
Total	951	

【Analysis】

Out of a total of 951 responses, 129 respondents (13.56%) indicated they felt the pressure of sales budget management was severe, which is lower than the 168 respondents (17.67%) who did not feel such pressure.

(7) What do you think motivated the misconduct in this case? (multiple answers allowed)	**Number of responses**
① The perpetrator wanted to gain personal profit	545
② Because it was troublesome and cumbersome to process expenses through proper channels	266
③ Preparing reports required when construction profits deviated significantly from the budget or when projects incurred losses was time-consuming and troublesome. .	240
④ Due to significant pressure from the company regarding construction budget management, there was a strong desire to somehow keep the project within budget. .	387
⑤ Since gifts and refreshments cannot be definitively stated as necessary for business operations, 257	257
⑥ Other (specify)	172

【Analysis】

Out of the total 1,867 responses, 545 responses pointed to personal factors of the perpetrator (① The perpetrator sought personal gain), while many others cited issues stemming from the Company's expense processing and budget management perspectives.

Specifically, regarding the hassle of expense processing, 266 responses cited: "② Because formal expense processing was time-consuming and troublesome." Additionally, 257 responses cited: "⑤ Because it was difficult to claim that gifts, etc., were absolutely necessary for business, and therefore there was resistance to applying for formal expense processing."

Regarding the burden and pressure of budget management, 240 responses cited: "③ It was time-consuming and troublesome to prepare the reports required when construction profits deviated significantly from the budget or when a project was expected to result in a loss." Furthermore, 387 responses cited: "④ Due to significant pressure from the Company regarding construction budget management, there was a strong desire to somehow keep the project within budget."

Other responses included: insufficient company consideration for the field, past customs and fixed ideas, and the need to find money for "internal entertainment." Furthermore, some pointed out deficiencies in the internal entertainment expense system.

・I believe there was dissatisfaction with the company due to insufficient consideration for individual workloads.

・There may have been circumstances where following instructions from superiors or senior staff was unavoidable, or perhaps there was an established practice where this was considered normal.

・There was a fixed notion that misconduct was normal because seniors had done it in the past, and it wouldn't be noticed.

・There may have been no specific motive; it could have been done naturally as a routine practice, as if it were normal, even if the perpetrator was aware it was wrong.

・There may have been a specific internal arrangement for funding entertainment expenses unique to the Soil Improvement business.
・Rampant internal entertainment expenses
・Entertainment expenses existed for non-site personnel (e.g., site inspections)
・There is a sense that employees were pressured into providing internal hospitality.
・The misconduct had been passed down through generations, and they didn't perceive it as wrong.
・This time, numerous employees were implicated in the misconduct like pulling on a string of potatoes. However, since managers themselves were engaging in misconduct, subordinates who witnessed this likely thought, "If my boss is doing it, so should I." Naturally, corrective guidance from superiors became impossible, creating a vicious cycle.
・The system for internal entertainment expenses was flawed. There was insufficient awareness and inadequate management regarding the purpose and control methods for these expenses.

Regarding these survey results, first, concerning responses ②and ⑤about the hassle of expense processing, it appears that there is a lack of understanding about proper expense procedures in the first place. Furthermore, the necessity of following proper accounting procedures is not fully grasped, leading to the perception that formal accounting processes are "troublesome."

Furthermore, regarding the responses to ③concerning the burden and pressure of budget vs. actual management, it appears that the management department is unaware that "preparing reports required when construction profits deviate significantly from the budget or when a project becomes unprofitable" is placing additional strain on the already busy workloads of field employees. Conversely, responses to question ④suggest that while the management department has instructed base managers since 2022 projects to avoid pressuring sites regarding budget vs. actual management, this intent has not reached the field. Site employees remain unaware of management's intentions.

(8) Which of the following best reflects the views of many of our employees regarding misconduct? (Multiple answers allowed)	**Number of responses**
① Fraudulent acts like this case are absolutely unacceptable, and there is absolutely no culture that tolerates them.	453
② While gifts to site workers are sometimes necessary to ensure smooth project progress, it is sometimes unavoidable to submit fictitious or inflated invoices due to insufficient entertainment budgets or the hassle of proper processing.	147
③ While personal gain is impermissible, transferring construction costs between multiple sites does not cause loss to the company and can be considered acceptable in some respects for ensuring smooth operations.	264
④ I learned this method from seniors and subcontractors, and I believe the company tacitly approves of it.	164

⑤ There's an atmosphere that it's fine since it's an industry practice done by other companies too.	137
⑥ Other (specify)	157

【Analysis】

Out of the total 1,318 responses, 453 respondents stated, "① Unethical conduct like this case is absolutely unacceptable, and there is no tolerance for it." However, numerous responses pointed out that our company had an organizational culture that tolerated or tacitly accepted inappropriate conduct, as well as practices based on industry customs.

Regarding organizational culture: 147 respondents stated: "② To ensure smooth project progress, gifts to site workers are sometimes necessary. However, due to limited entertainment budgets or the hassle of proper processing, fictitious or inflated billing is sometimes unavoidable." 264 respondents stated: "③ While personal gain is not permitted, transferring construction costs between multiple sites does not cause company losses and can be considered acceptable in some respects to facilitate operations." 164 respondents stated: "④ I learned the methods from seniors or cooperating contractors, and I believe the company tacitly approves."

Furthermore, from the perspective of industry customs: 137 respondents answered: "⑤ There is an atmosphere suggesting it is acceptable because it is common practice in the industry and other companies do it too."

Other responses included: In addition to pointing out that entertainment expenses cannot be used, some responses suggested that factors such as past involvement by superiors and the promotion of individuals who created conditions enabling misconduct may contribute to fostering a corporate culture that tolerates wrongdoing.

・The Soil Improvement Business Unit generated a large proportion of the company's profits, leading to complacency (or arrogance).
・When superiors or senior colleagues are in charge, subordinates often find themselves in an environment where they cannot voice concerns.
・This occurred because there are regions where entertainment expenses cannot be used at all.
・I believe everyone feels that current executives likely engaged in similar practices in the past.
・While misconduct like this case is absolutely unacceptable, the lack of entertainment funds and the cumbersome nature of proper procedures led to the adoption of easier, but incorrect, processing methods.
・It's unclear why individuals involved were promoted and retained. Those who make a mistake once tend to repeat them. Insufficient explanations of disciplinary actions erodes trust in the company, making me want to quit.
・The majority of staff did not consider instructions from higher-ups to be misconduct.
・Superiors directly or indirectly forced this. I fully understood that this is the kind of company it is after being transferred to North Kanto.
・This resulted from the company's desire to avoid accepting loss-making projects, or at least minimize the scale of losses if they occurred.

These survey results indicate that cost item transfers in Soil Improvement projects were tolerated on-site, had been widespread for decades, and continued unabated to the present day.

Furthermore, they reveal that compliance training after the 2022 cases has not permeated the workforce. There is also a fundamental lack of understanding regarding proper expense processing. Even though it may be cumbersome, the importance of following proper expense procedures is not sufficiently grasped.

<Question 6　Regarding the company's stance on the 2022 case>

(1) In 2022, our company also experienced inappropriate accounting practices at the Chubu Branch's Soil Improvement project. These included falsely inflating construction costs for other sites to benefit subcontractors and shifting profits from one project to another to avoid excessive gains. Are you aware of such cases (hereinafter referred to as the "2022 Cases")?	**Number of responses**	**Percentage**
①Yes	291	31.02%
②I've heard of it but don't know the details	298	31.77%
③I don't know	349	37.21%
Total	938	

【Analysis】

Of the total 938 responses, only 291 (31.02%) indicated awareness of the 2022 case, while 349 (37.21%) stated they were unaware, exceeding the former. Combined, 647 responses (68.98%) indicated a lack of detailed knowledge regarding the 2022 case.

During interviews, it was also observed that the construction site managers within the Construction Department of the Soil Improvement Division tended not to perceive the 2022 case as their own responsibility.

These survey results suggest that compliance training has not permeated the entire company and that measures to prevent recurrence of the 2022 case have not been sufficiently effective.

(2) Do you believe that after the 2022 case occurred, the company implemented sufficient recurrence prevention measures?	**Number of responses**	**Percentage**
①　Yes	341	36.39%
②　No	596	63.61%
Total	937	

【Analysis】

Out of a total of 937 responses, only 341 (36.39%) indicated that they believed the company had implemented sufficient recurrence prevention measures ("Yes"), while responses indicating they did not believe this ("No") significantly outnumbered them at 596 (63.61%).

These survey results indicate that our employees do not evaluate the effectiveness of recurrence prevention measures. This suggests that the compliance training, which was given considerable emphasis in the 2022 case, had not been effectively implemented.

(4) Despite being a 2022 case, inappropriate accounting practices had continued since before that year and were only discovered in 2024. What do you think caused this? (Multiple answers allowed).	**Number of responses**
① The 2022 case was not widely communicated within the company	207
② Regarding the 2022 case, it was communicated internally, but it was not perceived as a particularly serious matter within the company.	305
③ Both the 2022 case and this case involved inadequate internal management.	358
④ An issue with the individual perpetrator	423
⑤ Other (specify)	117

【Analysis】

Out of a total of 1,410 responses, while 423 cited "individual perpetrator issues," numerous responses pointed to problems within our company.

Specifically, 207 responses indicated issues with awareness of the 2022 case (①). 305 responses stated that although awareness existed, the 2022 case was not perceived as particularly serious within the company (②). 358 responses indicated that internal management was inadequate for both the 2022 case and the current case (③).

Other responses included frequent mentions that there was no specific, detailed explanation regarding the 2022 case, and that specific countermeasures were not discussed or implemented. Some respondents even stated that they were instructed to transfer costs by someone in a position of authority.

・It was not communicated to all employees. Furthermore, people thought it was someone else's problem.

・I believe only disciplinary actions were announced, with no information regarding countermeasures.

・If the company had genuinely endeavored to prevent recurrence, this recurrence (which may be ongoing misconduct) should not have occurred. I suspect the practice continued because the corporate culture held that processing methods inherited from seniors were perceived as correct.

・I believe the nature of this incident differs from the previous one.

・Similar fraudulent activities were discovered again after the 2022 incident, indicating that recurrence prevention measures were not sufficiently effective. I also believe that lingering burdens and pressures related to budget management and accounting procedures, which had not been alleviated for field and sales staff, contributed to this.

・I feel the fundamental corporate culture hasn't improved.

・I had just joined the company, but there was absolutely no mention of this in any ethics training or similar programs. Past internal news also made no reference to it.

・Because it was one-way communication (education), the essential points were not actually conveyed.

・I recall disciplinary actions being taken against those involved, but I don't believe specific recurrence prevention measures were ever discussed or implemented.

・Even after the 2022 incident, there has been insufficient explanation to employees about what actions are prohibited. For example, before this compliance incident, someone in a position of authority told you (the respondent) that since your site is profitable, you should cover the costs for the office shared by multiple construction projects. Regarding management engineers, they said since we're covering the costs at our site, you (the respondent) can use them freely at your site. Each time, I explained that this was unacceptable.

・While some rule changes may have occurred after the 2022 incident, I believe awareness won't change unless there's education explaining why these actions are wrong, reaching all employees down to the lowest level. Merely adding unnecessary rules won't change anything.

It is possible to interpret responses ① and ③ as pointing to problems with the internal management system, while responses ② and ④ point to problems with fostering compliance awareness. The fact that the combined count of responses ② and ④ exceeds that of responses ① and ③ suggests these survey results indicate many executives and staff viewed the 2022 case as someone else's problem, revealing a lack of cultivated compliance awareness.

<Question 7　Compliance Framework>

(1) Do you know who (or where) to report/consult with if you discover a compliance violation at our company?	**Number of responses**	**Percentage**
① Yes	639	68.64%
② Don't know	292	31.36%
Total	931	

【Analysis】

Of the total 931 responses, 639 (68.64%) indicated they knew where to report or consult about compliance violations, while 292 (31.36%) stated they did not know. These survey results suggest that while corporate ethics helplines are established and communicated through internal intranets and training programs, the methods of dissemination may be insufficient. Alternatively, there may be a lack of awareness about the necessity of reporting compliance violations when discovered, resulting in a situation where employees do not know where to report them.

(2) Do you feel you can immediately report or consult with your supervisor or the corporate ethics helpline when discovering a compliance violation?	**Number of responses**	**Percentage**
① Yes	624	67.17%
② Don't feel	305	32.83%
	929	

【Analysis】

Out of a total of 929 responses, 624 (67.17%) indicated they would feel comfortable reporting or consulting with their supervisor or the corporate ethics helpline upon discovering a compliance violation. However, 305 respondents (32.83%) stated they would not feel comfortable doing so.

Regarding these survey results, reasons cited for not feeling able to immediately report or consult with the above or the corporate ethics helpline upon discovering a compliance violation generally include insufficient awareness of the corporate ethics helpline system and assurances that reporters will not face adverse treatment, leading to a lack of confidence and trust in the system. Additionally, concerns about supervisors' compliance awareness, making consultation seem pointless, were cited.

(3) Have you ever been instructed or pressured to conceal a compliance violation?	**Number of responses**	**Percentage**
① Yes	28	3.01%
② No	901	96.99%
Total	929	

【Analysis】

Out of a total of 929 responses, 28 respondents (3.01%) indicated they had been instructed or pressured to conceal compliance violations. Although the percentage (3.01%) is low, the fact that there are 28 actual cases where individuals were instructed or pressured to conceal compliance violations raises doubts about our compliance framework and cannot be ignored.

(4) Have you ever suffered retaliation or disadvantage after pointing out a compliance violation?	**Number of responses**	**Percentage**
① Yes	16	1.72%
② No	913	98.28%
Total	929	

【Analysis】

Out of a total of 929 responses, 16 respondents (1.72%) indicated they experienced retaliation or disadvantage after reporting a compliance violation. Although the proportion (1.72%) is low, the existence of 16 actual cases where individuals experienced retaliation or disadvantage after reporting compliance violations raises questions about our compliance framework and cannot be ignored.

(5) Based on the 2022 case, do you feel that the commitment to and communication of compliance by our executives was sufficient?	**Number of responses**	**Percentage**
① Yes	376	40.52%
② Don't feel	552	59.48%
	928	

【Analysis】

Out of a total of 928 responses, 376 (40.52%) felt that, considering the 2022 case, the commitment to and communication of compliance by executives was sufficient. Responses indicating they did not feel this way (552 responses, 59.48%) exceeded this figure. These survey results suggest not only a disconnect between executives and our employees, but also that measures to prevent recurrence of the 2022 case have not been sufficiently effective.

<Question 8 Audit>

(1) Have you ever participated in an internal audit conducted by the Audit Department or an audit conducted by the Audit Committee members?	**Number of responses**	**Percentage**
① Yes	319	34.41%
② No	608	65.59%
Total	927	

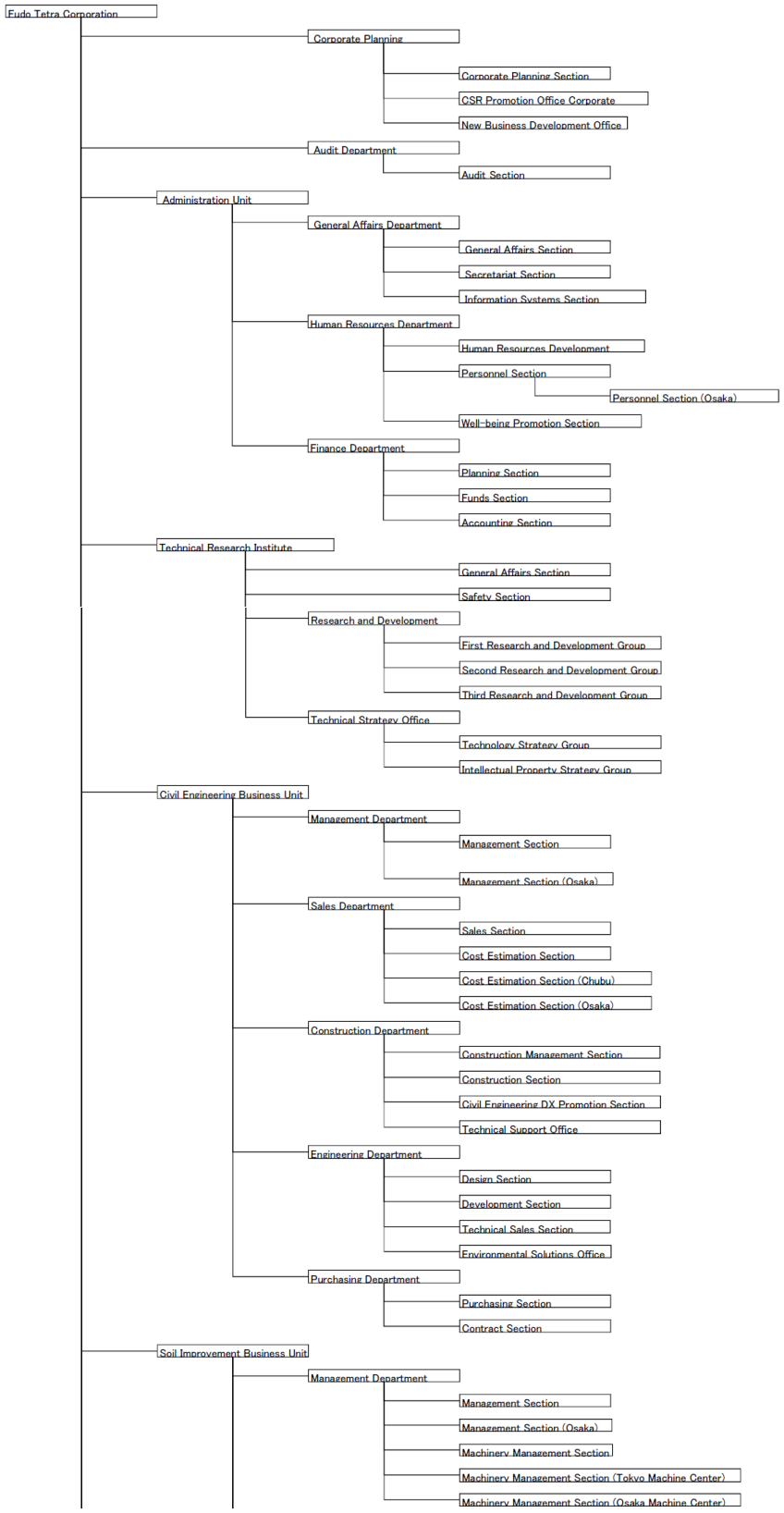
(4) Do you think the audit was helpful for your work?	**Number of responses**	**Percentage**
① Yes	252	79.00%
② No	67	21.00%
Total	319	

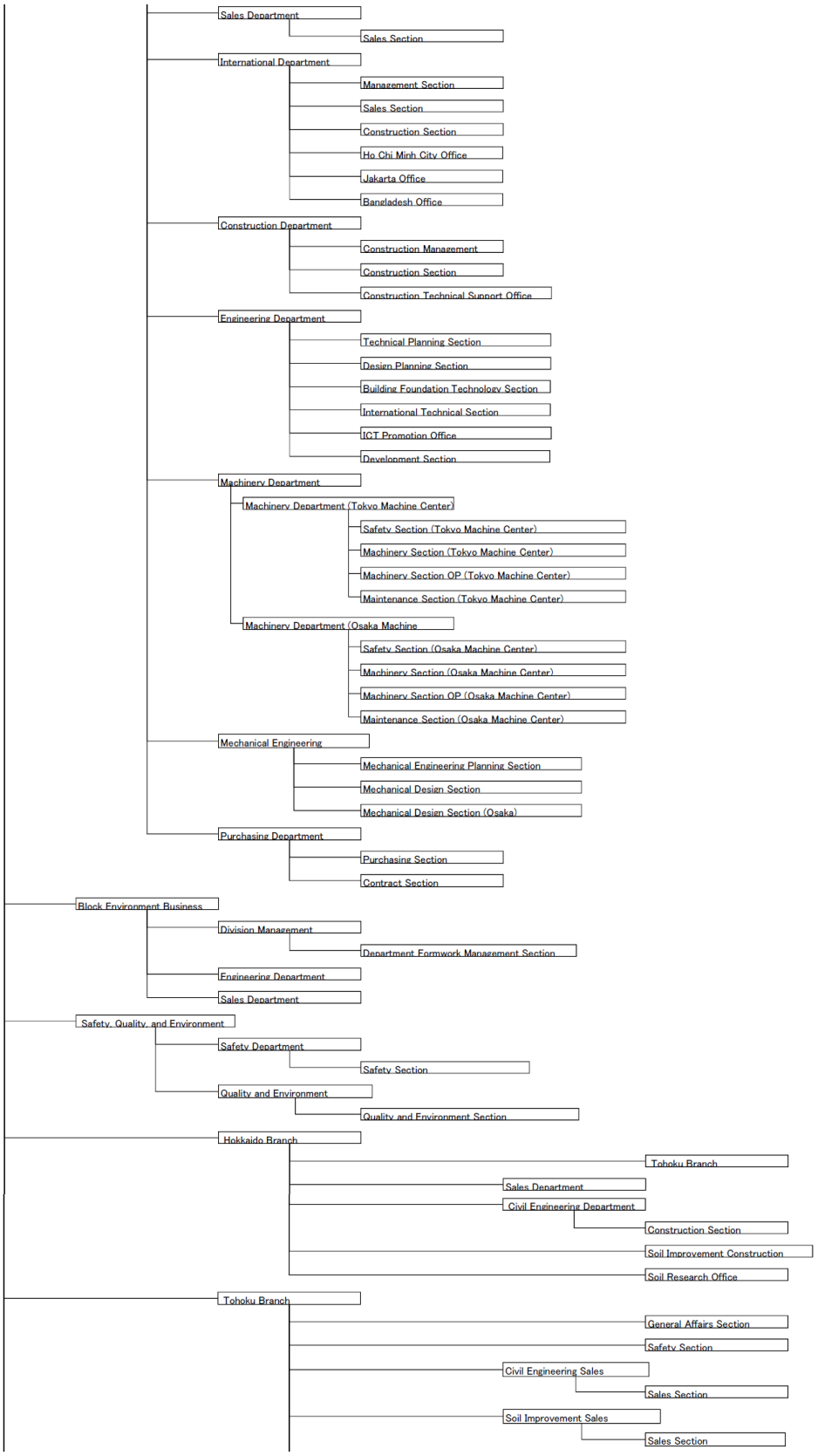
【Analysis】

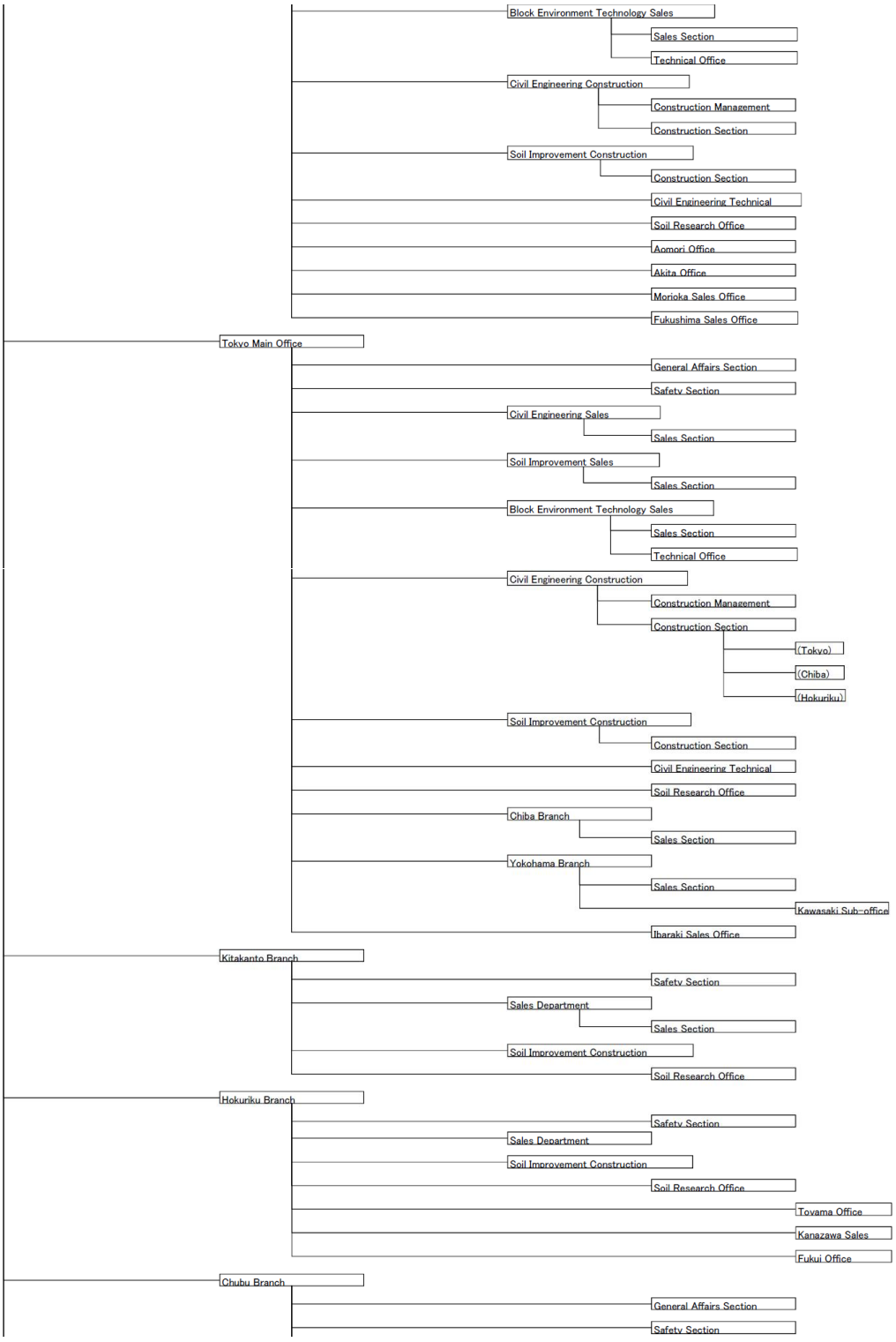
Of the total 927 responses, 319 (34.41%) indicated they had attended an internal audit by the Audit Department or an audit by Audit and Supervisory Committee members, while 608 (65.59%) indicated they had not attended. Among those who had attended, 252 respondents (79%) felt the audit was useful for their work, while 67 respondents (21%) did not feel it was useful.

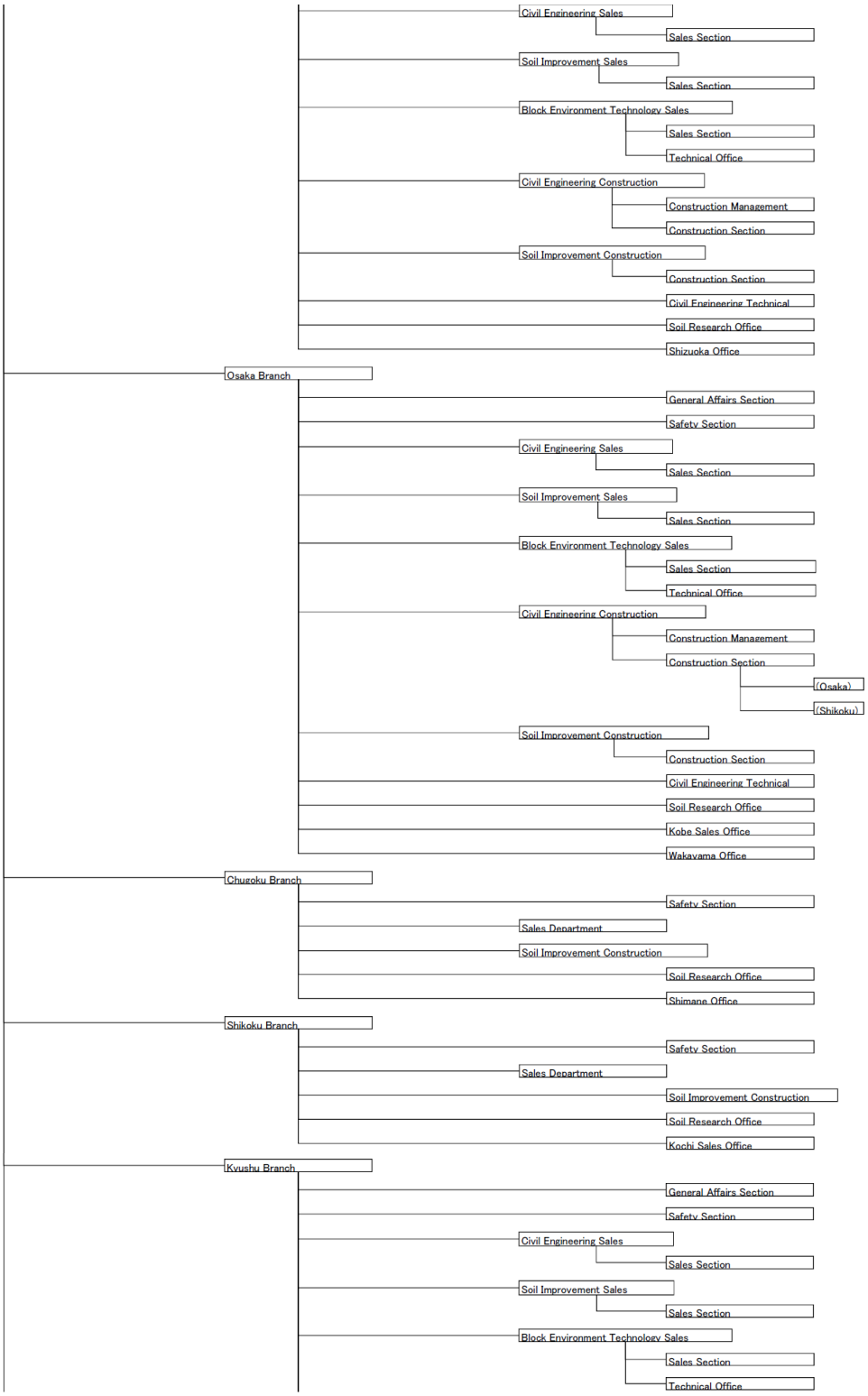
On-site inspections by the Audit Department and Audit and Supervisory Committee are generally conducted jointly. Audit Department members and full-time Audit and Supervisory Committee members who conducted these inspections held interviews with relevant officers and employees. These survey results suggest a tendency among officers and employees who participated in audits to perceive them as useful. To that extent, it can be assessed that the advisory function of the audits, centered on interviews by the Audit Department and Audit and Supervisory Committee, was exercised to a certain degree.

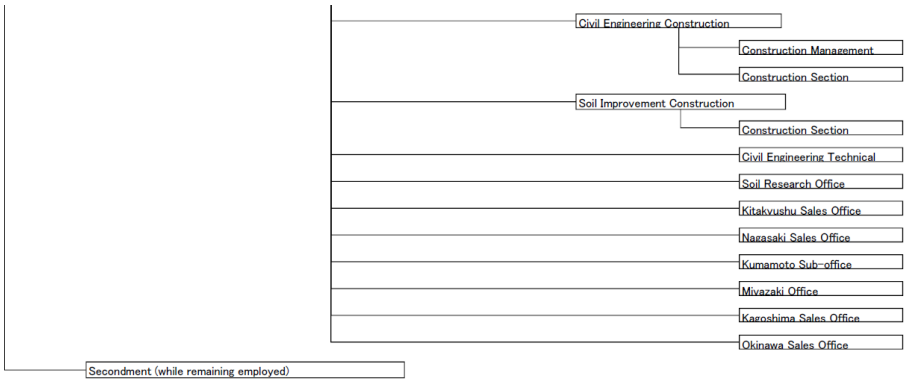
Appendix 3　Organizational Chart




Sales Department
Sales Section
International Department
Management Section
Sales Section
Construction Section
Ho Chi Minh City Office
Jakarta Office
Bangladesh Office
Construction Department
Construction Management
Construction Section
Construction Technical Support Office
Engineering Department
Technical Planning Section
Design Planning Section
Building Foundation Technology Section
International Technical Section
ICT Promotion Office
Development Section
Machinery Department
Machinery Department (Tokyo Machine Center)
Safety Section (Tokyo Machine Center)
Machinery Section (Tokyo Machine Center)
Machinery Section OP (Tokyo Machine Center)
Maintenance Section (Tokyo Machine Center)
Machinery Department (Osaka Machine
Safety Section (Osaka Machine Center)
Machinery Section (Osaka Machine Center)
Machinery Section OP (Osaka Machine Center)
Maintenance Section (Osaka Machine Center)
Mechanical Engineering
Mechanical Engineering Planning Section
Mechanical Design Section
Mechanical Design Section (Osaka)
Purchasing Department
Purchasing Section
Contract Section
Block Environment Business
Division Management
Department Formwork Management Section
Engineering Department
Sales Department
Safety, Quality, and Environment
Safety Department
Safety Section
Quality and Environment
Quality and Environment Section
Hokkaido Branch
Tohoku Branch
Sales Department
Civil Engineering Department
Construction Section
Soil Improvement Construction
Soil Research Office
Tohoku Branch
General Affairs Section
Safety Section
Civil Engineering Sales
Sales Section
Soil Improvement Sales
Sales Section


Block Environment Technology Sales
Sales Section
Technical Office
Civil Engineering Construction
Construction Management
Construction Section
Soil Improvement Construction
Construction Section
Civil Engineering Technical
Soil Research Office
Aomori Office
Akita Office
Morioka Sales Office
Fukushima Sales Office
Tokyo Main Office
General Affairs Section
Safety Section
Civil Engineering Sales
Sales Section
Soil Improvement Sales
Sales Section
Block Environment Technology Sales
Sales Section
Technical Office
Civil Engineering Construction
Construction Management
Construction Section
(Tokyo)
(Chiba)
(Hokuriku)
Soil Improvement Construction
Construction Section
Civil Engineering Technical
Soil Research Office
Chiba Branch
Sales Section
Yokohama Branch
Sales Section
Kawasaki Sub-office
Ibaraki Sales Office
Kitakanto Branch
Safety Section
Sales Department
Sales Section
Soil Improvement Construction
Soil Research Office
Hokuriku Branch
Safety Section
Sales Department
Soil Improvement Construction
Soil Research Office
Toyama Office
Kanazawa Sales
Fukui Office
Chubu Branch
General Affairs Section
Safety Section


Civil Engineering Sales
Sales Section
Soil Improvement Sales
Sales Section
Block Environment Technology Sales
Sales Section
Technical Office
Civil Engineering Construction
Construction Management
Construction Section
Soil Improvement Construction
Construction Section
Civil Engineering Technical
Soil Research Office
Shizuoka Office
Osaka Branch
General Affairs Section
Safety Section
Civil Engineering Sales
Sales Section
Soil Improvement Sales
Sales Section
Block Environment Technology Sales
Sales Section
Technical Office
Civil Engineering Construction
Construction Management
Construction Section
(Osaka)
(Shikoku)
Soil Improvement Construction
Construction Section
Civil Engineering Technical
Soil Research Office
Kobe Sales Office
Wakayama Office
Chugoku Branch
Safety Section
Sales Department
Soil Improvement Construction
Soil Research Office
Shimane Office
Shikoku Branch
Safety Section
Sales Department
Soil Improvement Construction
Soil Research Office
Kochi Sales Office
Kyushu Branch
General Affairs Section
Safety Section
Civil Engineering Sales
Sales Section
Soil Improvement Sales
Sales Section
Block Environment Technology Sales
Sales Section
Technical Office


Civil Engineering Construction
Construction Management
Construction Section
Soil Improvement Construction
Construction Section
Civil Engineering Technical
Soil Research Office
Kitakyushu Sales Office
Nagasaki Sales Office
Kumamoto Sub-office
Miyazaki Office
Kagoshima Sales Office
Okinawa Sales Office
Secondment (while remaining employed)

Appendix 4 Amount of Improper Conduct Total 36,218,499

Type	Perpetrator	No	Amounts
B: Pool Fund	Mr./Ms. R	1	1,000,000
	Mr./Ms. AH	2	2,000,000
	Mr./Ms. AE	3	14,200
	Mr./Ms. AE	4	78,000
	Mr./Ms. AG	5	100,000
	Mr./Ms. S	6	4,000,000
	Mr./Ms. S	7	3,000,000
	Mr./Ms. I	8	3,400,000
	Mr./Ms. I	9	880,000
	Mr./Ms. A	10	4,000,000
B: Pool Fund D: Cost Transfer	Mr./Ms. R	11	3,000,000
	Mr./Ms. O	12	50,000
B: Pool Fund E: Receiving Money or Goods	Mr./Ms. R	13	684,000
	Mr./Ms. T	14	178,000
C: Cost Item Transfer	Mr./Ms. AB	15	132,300
	Mr./Ms. AD	16	67,000
	Mr./Ms. AD	17	55,000
	Mr./Ms. AC	18	86,800
	Mr./Ms. AC	19	152,200
	Mr./Ms. AI	20	52,800
	Mr./Ms.AI	21	23,600
	Mr./Ms. AE	22	40,000
	Mr./Ms. AE	23	28,400
C: Cost Item Transfer E: Receiving Money and Goods	Mr./Ms. T	24	273,000
D: Cost Transfer	Mr./Ms. U Mr./Ms. AN	25	76,607
	Mr./Ms. U	26	190,000

	Mr./Ms. U Mr./Ms. A	27	520,000
	Mr./Ms. AO	28	1,400,000
	Mr./Ms. I	29	90,000
	Mr./Ms. AH	30	5,600
	Mr./Ms. AA	31	18,294
	Mr./Ms. AA	32	43,618
	Mr./Ms. AG	33	6,000
	Mr./Ms. A Mr./Ms. H	34	520,000
	Mr./Ms. S	35	2,000,000
	Mr./Ms. S	36	700,000
	Mr./Ms. S	37	1,050,000
	Mr./Ms. S	38	1,050,000
	Mr./Ms. AE	39	20,160
	Mr./Ms. AE	40	900,000
	Mr./Ms. AE	41	446,000
	Mr./Ms. AJ	42	1,000,000
	Mr./Ms. T	43	212,000
	Mr./Ms. R	44	93,700
	Mr./Ms. AN	45	2,079,947
	Mr./Ms. AN	46	501,273